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IN THE MATTER OF The Public Inquiries Act Being Chapter 258 of the Revised Statutes of Alberta, 1955; and

IN THE MATTER OF an Inquiry into the administration, management and financial affairs of the Lethbridge Central Feeder's Association Limited, and the general operation in respect to the participation of the members therein.

P R O C E E D I N G S

at a Hearing held before

HIS HONOUR JUDGE L. SHERMAN TURCOTTE

VOLUME - I

DATE - December 14,1964

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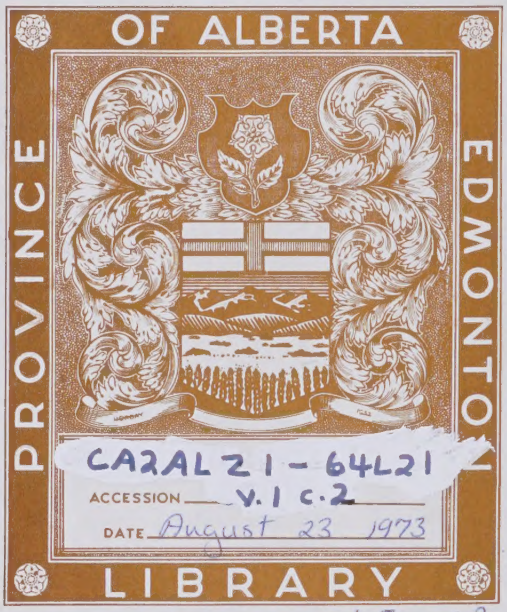
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JUDICIAL COMMISSION OF INQUIRY

IN THE MATTER OF The Public Inquiries Act Being Chapter 258 of the Revised Statutes of Alberta, 1955; and

IN THE MATTER OF an Inquiry into the Administration, management and financial affairs of the Lethbridge Central Feeder's Association Limited, and the general operation in respect to the participation of the members therein, held before His Honour Judge L. Sherman Turcotte at Lethbridge, Alberta.

ALEX B. WEIR, Esq.....Appeared for the Commission,

M. E. MOSCOVICH, Q.C.....Appeared for Mr. S. W. Hatch,

H. S. PROWSE, Q.C.....Appeared for the Canadian Imperial Bank of Commerce.

C. M. LEITCH, Esq.....Appeared for Williams, Tanner, Bell & Co.,

Wm. D. DICKIE, Esq.....Appeared for the Alberta Provincial Liberal Association,

A. WEBSTER MacDONALD, Esq.....Appeared for the Alberta Land Owners Association,

G. PALMER, Esq.....Appeared for Mr. Leonard Mahew,

R. L. JARDINE, Esq.....Official Court Reporter,

J. B. SNOW, Esq.....Official Court Reporter.

PROCEEDINGS TAKEN December 14, 1964:

THE COURT: First of all in the beginning I feel I should inform you why I was instructed to hold this Public Inquiry. In the first place, on the 23rd of June about ten members of the Lethbridge Central Feeders Association requested an Inquiry in a letter signed by these people in which it was stated -

"It has been uncovered that there is a deficiency of six hundred thousand dollars and we would like this

to be investigated as to how this came about."

Then a few days later, in July, a letter was received by the late Mr. Kingston Pippet acting on behalf of these people in which he went into a bit more detail, and pointed out that the petitioners were informed that, for example, money had been lent to staff, that money had been lent for feed, that there were apparently liberal expense accounts for the operation confined to the Lethbridge-Medicine Hat area without checking vouchers. Allowed money to be lent to trade rivals. Allowed money to be lent for land levelling and purchase of land. Allowed money to be lent to a person whose credit rating was so bad it was of universal knowledge.

Then on the 20th of August a petition was received under the signature of Mr. B. Travers Smith. And in enclosing the petition he stated -

"Enclosed herewith is a petition signed by 45 members of the Lethbridge Central Feeders Association.

This petition requests an investigation and action where necessary in regard to the operation of the Association."

This petition was circulated between Friday the 14th of August to Thursday the 20th of August, 1964. The petition reads as follows:-

"WHEREAS the Auditor's Statement of the Lethbridge Central Feeders Association indicates manipulations and mismanagement, and

WHEREAS a great deal of detail was not disclosed by the

Statement, and

WHEREAS Members of the Association are being requested to assume a burden for which the great majority are not responsible.

THEREFORE BE IT RESOLVED that the undersigned request the Attorney General of Alberta to institute an immediate investigation into the affairs of the Association.

AND BE IT FURTHER RESOLVED that in the event of evidence of improper conduct or misappropriation that those responsible be proceeded against in accordance with the law."

A few days later another copy of this petition with about ten or eleven names was forwarded.

Now, on the 31st of August a meeting was held in the office of the Minister of Agriculture in Edmonton, which was attended by three members of the Board of Directors of the Association, the auditor, members of the Government, and Civil Servants. The members of the Board of Directors asked for a delay of two weeks in the announcement of the Inquiry so that they might have further time to carry on negotiations with a view to continuing the Association.

On the 9th of October, 1964, the Lieutenant Governor in Council passed the following Order in Council:-

"WHEREAS section 2 of The Public Inquiries Act, being chapter 258 of the Revised Statutes of Alberta, 1955, provides:

'2. Where the Lieutenant Governor in Council deems it expedient and in the public interest to cause an inquiry to be made into and concerning a matter within the jurisdiction of the Legislative Assembly and

(a) connected with the good government of of the Province or the conduct of the public business thereof, or

(b) that he declares by his commission to be a matter of public concern,

the Lieutenant Governor in Council may appoint one or more commissioners to make the inquiry and to report thereon.'

and

WHEREAS complaints have been received by the Government relating to the administration, management and financial affairs of the Lethbridge Central Feeder's Association Limited and the general operation in respect to the participation of the members therein;

and

WHEREAS this is a matter of public concern and it is deemed expedient and in the public interest to cause a public inquiry to be made into the aforementioned matters:

THEREFORE, upon the recommendation of the Honourable the Attorney General, the Executive Council advises that His Honour Judge L. S. Turcotte be and is hereby appointed a

commissioner to inquire into the administration, management and financial affairs of the Lethbridge Central Feeder's Association Limited and the general operation in respect of the participation of the members therein, and report thereon."

This is signed by the Honourable Ernest C. Manning, Chairman.

Now, on the 22nd day of October I was advised Mr. Weir of the Department of the Attorney General had been appointed as Commission Counsel. Mr. Weir and myself have had several conversations and interviews with Mr. Williams, a member of the firm of auditors for the Association, and Mr. Cliff Peterson who has been employed at the office of the Association for many years, and who has been Secretary Treasurer of the Association since the spring of this year, and with Mr. MacLean, the Manager of the branch of the Canadian Imperial Bank of Commerce, Lethbridge, through which the loan of the Association was payable. We have examined the auditor's report, the special report of the auditor, the ledgers, and some of the other books of the company, in order to form an intelligent as possible an idea of the scope of this inquiry. I then endeavored to make sure that all persons who might have an interest in these proceedings would be notified, and accordingly a notice, which I am not going to read, and I am sure that all of you have read it, was published in the 'Lethbridge Herald' on November 21st, 27th, and 28th, and in several of the weekly newspapers in the area, and a copy of this notice was mailed to all shareholders of

the Association. So that anyone who has an interest in this investigation I am sure has been fully advised and made aware of it.

Now, this, as we see it, is going to be a very lengthy matter, and it is my intention to hold sittings of the Inquiry from 10 to 12:30 each morning and from 2 to 4:30 on each day, from today through to Friday, December the 18th. I will then adjourn the Hearing until 10 o'clock on Monday, January 4th, 1965. The sittings will then resume and will continue during that week and the next week, and I hope that we will be able to finish the evidence on January the 15th.

Commission Counsel intends to call about 60 witnesses. As the Inquiry will cover at least three weeks in taking evidence we have endeavored to subpoena witnesses for each day. It is, of course, possible that we will not be able to keep strictly to schedule, and perhaps a witness may have to return on the day following the day mentioned in his subpoena. However, Commission Counsel and I will make every endeavor and every effort to not unduly inconvenience any of the witnesses called, and I am sure that we will have the co-operation of the other counsel appearing.

During the week of December the 14th, that is this week, it is the intention to have witnesses covering the overall organization of the Association, the method in which it was operated, covering the loss which was incurred, and how the loss was incurred. On the 2nd and 3rd weeks the members of

the Association whose accounts show a large deficiency will be called to give evidence, along with certain other witnesses whose dealings with the association seem to require some explanation.

This morning Mr. Peterson will be called to produce the books of the Association and its subsidiary company. And then Mr. Williams of Williams Tanner and Bell, the auditors will be called to give evidence.

Now, in order to save time this morning Mr. Weir and Mr. Peterson and Mr. Woo, the Clerk on this Inquiry, and myself arranged on Thursday last to identify and number the Exhibits which will be introduced by Mr. Peterson this morning, and in reference to that matter we have made, I think, a sufficient number of lists of the Exhibits for all Counsel.

Now, we will proceed with the evidence of Mr. Peterson.

CLIFFORD PETERSON, having first been duly sworn, examined by Mr. Weir, testified as follows:

Q What is your name and occupation please?

A Clifford Peterson. I am presently the manager of Lethbridge Central Feeders Association Limited.

Q Mr. Peterson, will you identify these documents that you have brought into Court? Mr. Clerk, will you read them off.

THE FOLLOWING EXHIBITS WERE ENTERED AT THIS POINT)

EXHIBIT NO. L 1a
Cheque register - August 1954 to July, 1959.

EXHIBIT NO. L 1b
Cheque register - August 1959 to December 1961.

EXHIBIT NO. L 1c
Cheque Register January 1962 to date.

EXHIBIT NO. L 2
Purchase Book-August 1,1957 to date.

EXHIBIT NO. L 3a
Sales Book and General Cheques
August 1959 to December 1961.

EXHIBIT NO. L 3b
Sales Book and General Cheques-
August 1962 to date.

EXHIBIT NO. L 4
Membership and Reserves

EXHIBIT NO. L 5
General Ledger

EXHIBIT NO. L 6
Accounts Receivable-August 1959 to date.

EXHIBIT NO. L 7a
Cash Receipt Book- January 1954 to
July 1957.

EXHIBIT NO. L 7b
Cash Receipt Book-August 1957 to
July 1959.

EXHIBIT NO. L 7c
Cash Receipt Book-August 1959 to
September 1961.

EXHIBIT NO. L 7d
Cash Receipt Book-October 1961 to
July 1963

EXHIBIT NO. L 7e
Cash Receipt Book-August 1963 to date.

EXHIBIT NO. L 8a
Journal - August 1953 to July 1957.

EXHIBIT NO. L 8b
Journal - August 1957 to August 1959.

EXHIBIT NO. L 8c
Journal - September 1959 to December 1961

EXHIBIT NO. L 8d
Journal - December 1961 to December 1962.

EXHIBIT NO. L 8e
Journal - January 1963 to date.

EXHIBIT NO. L 9
Member's Ledger Trays Current

EXHIBIT NO. L 10
Member's Transfer Box

EXHIBIT NO. L 11
N. A. B. Ledger Trays.

EXHIBIT No. L 12
Members and N. A. B. Transfer Box.

EXHIBIT NO. L 13
Box of contracts.

EXHIBIT NO. L 14
Record of Brands.

(CENTRAL LIVESTOCK MARKETING LIMITED)

EXHIBIT NO. M 1a
February 1961 to December 1963.

EXHIBIT NO. M 1b
1964 General Cheques and Invoices.

EXHIBIT NO. M 1c
1963 Receipts September 1963 to date.

EXHIBIT NO. M 2a
February 1961 to December 1963-
Cheques and Receipts.

EXHIBIT NO. M 2b
September 1963 to date - Receipts.

EXHIBIT NO. M 2c
January 1964 to date - Cheques.

EXHIBIT NO. M 3
Journal - 1961 to date.

EXHIBIT NO. M 4a
Accounts Receivable-General-
February 1961 to 1962.

EXHIBIT NO. M 4b
Accounts Receivable- General -
April 1962 to date.

EXHIBIT NO. M 5
Accounts Receivable - Shipper's Trust.

EXHIBIT NO. M 6
Sales Register-1961 to date

EXHIBIT NO. M 7
Accounts Receivable

EXHIBIT NO. M 8
Shipper's Trust-General Ledger 1963.

(LETHBRIDGE CENTRAL FEEDERS HOLDING PENS)

EXHIBIT NO. H 1a
Livestock and Price Control Book.

EXHIBIT NO. H 1b
Livestock and Price Control Book.

EXHIBIT NO. H 1c
Livestock and Price Control Book.

EXHIBIT NO. H 1d
Livestock and Price Control Book.

EXHIBIT NO. H 1e
Livestock and Price Control Book.

EXHIBIT NO. H 2
Receipts, Cheques and Invoices.

EXHIBIT NO. H 3a
General Ledger

EXHIBIT NO. H 3b
General Ledger and includes General
Ledger of Central Livestock Marketing.

EXHIBIT NO. H 4
Accounts Receivable.

(LETHBRIDGE CENTRAL FEEDERS ASSOCIATION LTD.)

MINUTE BOOK INCLUDES _

EXHIBIT NO. R 1
Memorandum of Association.

EXHIBIT NO R 2
Articles of Association.

EXHIBIT NO. R 3
Minutes of Annual and General and Special Meetings of Shareholders.

EXHIBIT NO. R 4
Minutes of Meeting of Directors.

THE COURT: Now, the book of forms. The files of forms. Are you going to put those in in a few minutes?

MR. WEIR: Yes.

Q Mr. Peterson, do you recognize these documents contained in this file folder?

A Yes sir.

Q And what are they?

A This is the invoice that you use when cattle are bought.

Q Just generally. Are these forms used by Lethbridge Central Feeders Association Ltd?

A Yes, those are the invoices and cheques and settlements and journal vouchers and contracts issued by the Association.

Q I would like to have this marked as Exhibit C 1.

EXHIBIT NO. C 1
File Folder of forms.

Q And the file folder is named "sample forms and procedure outline". That is Exhibit C 1.

THE COURT: Now, are there copies of that?

MR. WEIR: Yes sir, there are two copies.

THE COURT: We only have four copies altogether. Perhaps you can divide them between the three of you.

MR. WEIR:

Q Mr. Peterson, will you identify the documents, forms, in

this Exhibit C 1 please?

A Firstly there is an explanation, an auditor's explanation of the documents.

Q This was prepared by---

A By Mr. Williams, the auditor.

Q Thank you.

A This is the invoice used when livestock are purchased for members of the Association.

Q And this is part of Exhibit pencilled 1?

A Yes.

Q Go on.

A Now, this is a quadruplicate invoice.

THE COURT: That is number 1806 P.

THE WITNESS: Yes. When cattle are bought they are invoiced here in quadruplicate and the top copy goes to the seller and the second copy stays in the office, or duplicate copy of that, and the third copy goes to the member who received the livestock, and the 4th copy is the office copy that stays in the office. When we buy these cattle this copy goes to the person we buy them from. If we are invoiced from a firm it is attached totheir invoice and filed with the cheque with which it is paid.

MR. WEIR:

Q To which book is it entered?

A That would be entered in the Purchase book.

THE COURT: L 2.

THE WITNESS: Yes. The invoice is entered into this book.

MR. WEIR:

Q That is Exhibit L 2?

A Yes. From this book the posting goes into the member's ledger and to the general ledger. The total cost of the livestock plus expenses is posted in here. It is entered in here and posted tothe member's name.

THE COURT:

Q That is the tray, L 9?

A Yes.

MR. WEIR:

Q Go on.

A Number 2 is a copy of the livestock cheques, these are used to pay for livestock or advances to members for the expense involved in the buying of livestock. Now, they are entered into a cheque register, which is number L 1.

THE COURT:

Q L 1c, isn't it?

A Yes, that is correct.

Q Now, what happens to the two copies?

A The cheque goes to the person being paid and the copy with the voucher showing how it is to be charged through the books. It is a voucher system.

Q Where do they go, into a file?

A Yes, we file them. No. 3 is the settlement form when cattle are sold. This again is made in quadruplicate and the top

copy goes to the person who bought the cattle and the second one, a duplicate of it, which stays in the office, and the third one goes to the person that sold the cattle. The fourth copy is our copy and that stays in the office. And that is entered into the Sales Book, L 3.

Q L 3b would be it?

A Yes.

Q Now, when you speak of a person who sold the cattle in this case, you were referring to members?

A Yes.

Q Actually they are not selling the cattle, they are really re-delivering the cattle to the owners?

A Yes. They are being sold to their account. Now, number 4 is our drover bank account. It was used more in the past than it is now. It was set up originally for the buying of livestock that were not for members of the association, for business not with the association, and for giving advances is the way that we used it mainly. But when the holding pens account started it took over most of that. And that also goes in the cheque register numbered L 1c. Number 5, the general cheques, and they are used for paying the operation of the office such as salaries and office maintenance and the like. They are entered in L 3. The last one would be L 3b. Now, this one here is not numbered. This is a journal voucher and it is not numbered.

MR. WEIR:

Q Just identify it.

A This is a journal voucher,number 568 is the number of this voucher.

THE COURT:

Q What are you calling it, number 7?

A Yes, number 7. This is a form that is used when the entry does not fit in with the other books, such as a transfer between accounts, or a correction of an error where there is no actual cheque written or an invoice. It is a book entry.

MR. WEIR:

Q And the explanation is marked in under the item?

A Yes, and the amounts. This is entered to the journal books, the most recent one being L 8e. Number 6 is the contract form signed by the members who received livestock for the association.

Q Are there any other forms?

A No, that is all.

THE COURT: Now, this just refers to forms of Lethbridge Central Livestock---

THE WITNESS: Lethbridge Central Feeders Association.

THE COURT:

Q Now, there are other forms, are there not for the Holding Pens?

A Yes, there are.

Q And you have not prepared a book of those?

A No.

Q Perhaps we can have those entered when Mr. Sucher is called.

Are there forms of Lethbridge Central Marketing Limited?

A It is Central Livestock Marketing Limited.

Yes, there are forms there.

Q There are forms there?

A Yes.

Q And would he be the person that would have those?

A He balanced the books in that account.

Q Will you make a note, Mr. Weir, to have these two sets of documents when Mr. Sucher gives his evidence?

MR. WEIR: Yes, sir.

Q Now, Mr. Peterson, when did you first become aware---

THE COURT: How long has Mr. Peterson been there?

MR. WEIR:

Q How long have you been employed with the Association, Mr. Peterson?

A I started in January, 1951.

Q 1951?

A Yes sir.

Q What was your---What were your duties at that time?

A It has always been running the office. At first I was just learning the invoicing and settling and along that line, and over the years I became office manager, which duties did not change very much. I still did the invoicing and settling with members, and talked with the members when the manager wasn't there. In recent years I have also clerked the auction ring,

which means I was not in the office as much as I had been in the office. For a brief time---I don't know the years---back in around 1954 or 1955 for a short time I did enter the books, and since that I have not done that. I have been mainly on invoicing and settling and dealing with the Members. As office manager I did not have access to the limits of the membership. I did not have anything to do with the setting up of credits or anything like that. In a way I was office manager in name only, I would say.

Q As office manager would you have any responsibility in connection with the Holding Pen accounts?

A No, there were three different divisions of our office, Central Livestock Marketing, Holding Pens, and Lethbridge Central Feeders, and I was only concerned with the Lethbridge Central Feeders, the Feeders accounts, not with the Holding accounts.

Q Now, Mr. Peterson, when did you first become aware of any financial difficulty in the organization?

A I have known for some time there were things that were done that I did not approve of. There was money loaned I would not have loaned, but I don't think I felt there was any financial difficulty until probably around in the summer of 1963 when I became quite concerned to that point that I made it known around the office that I did not feel good about things, and I had considered quitting at that time.

Q Who in particular did you discuss this concern with?

A Well, I didn't discuss it. I had mentioned it around the office that I couldn't figure out, I figured there must be some collateral that I didn't know about, and which there was, and I knew a lot of the dealings were done directly with the Manager.

Q Who was the manager?

A Mr. Hatch. I made the statement around the office that unless there was a lot of things I did not know about that I could not understand why some advances were given that were given. I calculated about what I figured some of the accounts would be out, not having seen the cattle and not knowing the actual cattle accounts. The cattle accounts are not balanced. There are memos made on the cards, and we tried to keep them balanced. I felt some of them were a way out of line, but I didn't know whether there was land titles held as security on those accounts.

Q You have referred to Mr. Hatch as the manager. Did he have any other titles as well?

A He was the supervisor of the Association as well as being Secretary of the Board.

Q And he was your superior?

A Yes sir, he was.

Q And was he more senior in rank than the other managers, for example the manager of the Holding Pens?

A Yes. He was my only manager. I took all my instructions that I did directly from him. I didn't have to take them from anyone else in the office. I was hired by him.

Q Did you speak to him concerning your worry about some of these accounts?

A Yes, I did. I tried to, about November, on a Saturday morning he came in and we started to talk about it, and we were interrupted, and we started to talk about some other things I didn't feel good about, and we were interrupted and didn't get finished. He was in the country a lot. But in January---

Q January of this year?

A Yes, 1964. He came to the office right at 5 o'clock as I was leaving and I took the stenographers home so I hurried home and came back hoping I would find him there because these things had been bothering me, and I talked to him on that occasion and told him unless there was things I was not aware of that from the information I had I thought some of the accounts were way of line.

Q Did you mention any particular accounts tohim?

A Yes sir. I don't recall the number I had in mind, but I had six or eight of them in mind that I was concerned about.

Q Did you---which ones did you mention to him?

A The first one I mentioned was Leonard Mahew's account, and I told him I thought it was away high, and I couldn't figure out why, and he said --"You don't have to worry one minute about this account. It is well secured." To which I felt very relieved. I then mentioned another account, Mr. John Thiessen, and he said at the time that that one was not in

too good a shape, and that he may have to go on some of his security on that account. And by then he got up--- I don't know whether he got up, I don't think we were sitting down, and he walked over to the door and said --"you don't need to worry one minute about this account." He said -- "whatever happens I got us into it and I will get us out." I said before that---"Why don't we sit down as a group and try to figure this out and work out a program?" He left me quite abruptly with that statement.

Q Did you mention this conversation to anyone else, such as members of the Board or the Bank?

A No, I didn't.

Q Why didn't you report your worry tothe Board or representatives of the Bank?

A Mr. Hatch was the boss. He was my boss. I didn't answer to them. I had never been to any of their Board meetings nor asked to, and he assured me that the one I thought was bad was not bad.

Q Did he mention in particular what security was referred to in this Mahew account that he had?

A No, not on that day. A day or two later when I was sitting at my desk he came to me and mentioned that for one thing that he had around 40,000 bushels of grain to help to secure the account.

Q When did you discover that your fears concerning some of the accounts were well founded?

A On the day this happened, I believe it was the 17th day of March. That day I was not in the office.

Q The 17th of March, 1964?

A Yes sir. I was away. I was in Calgary that day, and I came back that evening and talked to the stenographer, and she told me what had happened.

Q Did you discuss at that time the financial difficulties with Mr. Hatch?

A No sir. He was not at the office for a period of time following that.

Q Were your duties changed at that time, your employment duties?

A Not as far as my work in the office was concerned. Things went on like in the past, except I was invited to attend the Board meeting to take the minutes, and I was put in as Secretary of the Board.

Q Who formerly held the duty as Secretary of the Board?

A Mr. Hatch.

Q So this new duty was given to you after March 18th, of this year?

A I believe it was March 21st.

Q How long did you continue with this new assignment and your former duties with the Association?

A On the 31st of March I submitted my resignation and I was asked to stay until a new man could come into the office, and I left on April the 10th.

Q To whom did you submit your resignation?

A I went to submit it to Mr. Houlton, who was then the President, and while I was there he gave me his resignation, and I delivered, that day I went to Mr. Paxman, he came in, and I told him about it in the afternoon and he read my resignation at a Board Meeting on the night of the 21st of March, 1964.

Q On the night of the 21st?

A Pardon me. The night of the 31st. I am sorry.

Q Were you present at that Board Meeting?

A Yes sir.

Q Was Mr. Hatch also present at that Board Meeting?

A Yes sir, he was.

Q And what, if anything, can you recall Mr. Hatch saying to you or to the meeting at that time?

A When my resignation was read he said it was a complete shock to him. He said if anyone should leave it should be him, and not me. He, and I am trying to think of the wording that he used---

Q Just take your time.

A Oh yes. He said at the time that our relationship had not been the best over the past few months because of this thing. Those are about the exact words that he used.

Q Was your resignation in writing?

A Yes, it was. By the way, he also asked when he said that it was a shock, he asked if I would reconsider, and I told him no, it was not a decision I made in a short term, that I had been thinking of it for some months previously, but I put it off too long. I have my resignation written out, I have a

a copy of it that was given to the Board at that time. I have it here. Should I read it out?

Q Yes.

A "Mr. H. G. Houlton, President, Lethbridge Central Feeders Assoc. Ltd.

It is after much consideration and with a great deal of regret that I submit my resignation as office manager of Lethbridge Central Feeders Assoc. Ltd.

I have worked for over thirteen years with the well being of the Association in mind as well as my own future in it as a member of the staff. In view of the things which have been brought to light I can now see very little future for the Association nor for myself in it.

As I stated in Board Meeting, although I was not fully aware of the things that were done I do accept some responsibility for not reporting the things of which I was aware.

I have enjoyed my work and my association with the individual Feeders. Regardless of my pessimism of the future, I hope the Association will again grow to be the important factor in the economy of Southern Alberta that it had been in the past."

Q I would like to have that marked as Exhibit C 2.

EXHIBIT NO. C 2
Letter of resignation of C. J. Peterson,

Q Now, Mr. Peterson, when did you come back into the employment of the Association?

A July 21st of this year.

Q In what capacity were you re-hired?

A I was re-hired as manager, but I was the only one on the staff.

Q You were the only one on the staff?

A Yes, I was. Subsequently to that I had, I received permission to have a girl come in on a part time basis to help keep the work up.

Q Why did you come back to the Association?

A Mr. Paxman, who is the President, came to me and asked me if I would consider coming back, and at the time I wasn't too sure. I asked him for a few days to make up my mind, and in considering it I decided there were two reasons. I had kept pretty close track of the Association since I left them, and I thought there may be a possibility of the Association going again, and I had quite a few dealings with the Members, and I had quite a few of them state to me that they were sorry I wasn't there. So I thought that with the possibility that it would go again I would try it. And together with the fact when something like this happens there are rumors around, and there are a lot of people I am sure that thought I did not leave on my own free will, and I wanted to let them know I didn't have anything to hide.

Q I show you three more file folders. Do you recognize these folders?

A Yes sir.

Q Would you explain generally what these folders are?

A On occasion there were people that would sell cattle and

ask that they not be paid until after the end of the year. These were folders I was asked to keep to keep track of the people that needed to be paid following the end of the year, if they had sold cattle, or if we had bought cattle from a rancher and placed them with the feeder, and they had asked that they not be paid for, and I had to keep track of the, of who needed to be paid the following year.

Q Where were these filed?

A In my desk.

Q Will you mark these as C 3, C4, and C5.

EXHIBIT NO. C3
File of Deferred Payment.

EXHIBIT NO. C 4
File of Deferred Payment.

EXHIBIT NO. C 5
File of Deferred Payment.

THE COURT: They are called files of deferred payment.

MR. WEIR:

Q Now, Mr. Peterson, whose responsibility was it to authorize advances?

A Mr. Hatch's responsibility, and when he wasn't there, if there was a member that had sold livestock that had a good equity in his account I sometimes gave advances without his approval, but whenever there was a question where I didn't feel there was equity or that they were over their limit they were referred to Mr. Hatch.

Q Was there anybody else in the office who made or authorized advances?

A No.

Q Your Honour, would you like an explanation at this time of the content of Exhibits C 3, C 4, and C 5, or is that sufficient at this time?

MR. MOSCOVICH: I intend to go into that myself.

MR. WEIR: That is all.

MR. MOSCOVICH CROSS EXAMINES THE WITNESS:

Q Mr. Peterson, who was the auditor throughout this time that you were in the office as manager?

A Williams, Tanner, Bell and Company.

Q Have you got two cheques in July, 1963, given to your father, C. M. Peterson, in your own handwriting?

A Two cheques?

Q Yes. For the amount of his membership and reserves?

A He received one cheque, I believe.

Q In your handwriting?

A Yes sir.

Q And you were talking about these Exhibits C 3, C 4, and C 5. What was the reason for hiding them in your drawer?

A I didn't know that they were hidden. They were put in the drawer and Mr. Hatch gave me instructions to keep track of them.

Q They were due in a particular year, were they not?

A Yes.

Q And they were held over until the following year?

A Yes.

Q And I am right in suggesting to you, although I may be wrong, that that was done for Income Tax evasion purposes?

A I would imagine that that was probably the---most of the arrangements were made with Mr. Hatch to be paid the following year.

Q You know Mr. Hatch was the supervisor?

A Yes.

Q And he usually came at the beginning of the year tothe Board Directors and told them the specific sum that he required for the year's operation?

A Yes.

THE COURT:

Q I think that that was at the end of March or the 1st of April. I think that is correct.

MR. MOSCOVICH:

Q At the early part of the year, Mr. Peterson, he would come and ask the Board of Directors to permit a certain sum of money, a million dollars or less, for operation?

A I was never there, but I understand that is the case.

Q You were at the meeting of March 17th or thereabouts of 1964?

A I was at a meeting on March the 21st.

Q Were you present when the Board gave Hatch a clean bill of health for all his activities?

A No sir.

Q Is there anything in the minutes that you put in as an Exhibit this morning that would indicate that that took place?

A No, not to my knowledge.

Q Have you read the minutes?

A No, not all of them. I read them back for about one year after I was put in as Secretary.

Q Will you tell His Honour Judge Turcotte what made you suspicious or worried and concerned, to use your own words, with certain accounts?

A For one thing they were in great figures.

Q Large sums?

A Yes. I did not have the list of credits, that I was sure there were no credits in those amounts authorized.

Q You mentioned a man by the name of Thiessen?

A Yes.

Q And another fellow whose name was---

A Mahew

Q What was wrong with these two accounts?

A For one thing, and I may not have mentioned this, but I think this is about the time that I became more bothered than I was before, as I understood that when Mr. Thiessen sold his cattle in 1963 I did not realize that he was out of livestock, and just from hearing the boys that went out and took delivery of them I found that he was out of livestock andhe still had an account at that time in the neighbourhood of 30 or 40 thousand dollars.

Q He was alleged in the books to owe Central Feeders the sum of 30 or 30-odd thousand dollars?

A Yes.

Q And therefore you suspected that the books were incorrect?

THE COU RT: No, no. The cattle were gone.

MR. MOSCOVICH:

Q The cattle were gone, put it that way. Did you notify Mr. Williams, the auditor? I believe that you mentioned that you notified two people---you remember saying that, don't you?

A Two people?

Q Yes, Mr. Houlton and someone else.

A No sir, I didn't say that. I said I talked to Mr. Hatch.

Q Did you talk to Mr. Williams, the company auditor?

A No, I didn't.

Q You did not explain to him that although the books showed there was 30 thousand dollars owing by Thiessen to Central Feeders, although you said that the books showed that there were no cattle in question?

A No, I didn't tell anybody.

Q Can you refer to that cheque quickly that you gave to your own father?

A I probably can't.

THE COURT: Perhaps we could leave that. He can bring it in this afternoon.

MR. MOSCOVICH: Thank you.

THE WITNESS: If I may say something on that.

MR. MOSCOVICH: Yes.

THE WITNESS: I have a letter here, a written letter of application for return of this membership to my father. It is very brief. It reads as follows:-

"As I haven't been feeding cattle the last while, I would like to make application for the return of my membership and reserves. "

This letter was signed by my father and it was given to Mr. Hatch.

THE COURT: It is dated when?

THE WITNESS: It is dated May the 6th, 1963. It was given to Mr. Hatch to take to a Board Meeting. Following the Board Meeting Mr. Hatch came to me and he said that that application of my father's has been approved. This is Mr. Hatch's mark. If you look through the books---

MR. MOSCOVICH:

Q I have no reason to doubt your word?

A And the reason that that question arose as to the authenticity of it is that it was not in the minutes. But to my knowledge---I was not at the meeting and I did not read the minutes.

Q In other words---

A I wrote most of the cheques.

Q Yes. And you wrote one to your father?

A Yes.

Q Do you remember the amount involved?

A In the neighbourhood of $1,400.00.

THE COURT: I think we should have that marked as an Exhibit.

EXHIBIT NO. C 6
Letter dated May 6,1963, from C. M. Peterson.

Q And you say there is a mark of Mr. Hatch's on it?

A Yes.

Q The "OK", is that it?

A Yes. He has just approved it. By the way, I found this when I was put in as Secretary, and I was asked to go back a year and read the Minutes, which I did, and as I was reading through this was lying in the minute book at about that time, and I removed it. No, I didn't remove it. I read it, and I didn't recall reading his name in the minutes, but there were other people at the same time that had got back their membership and reserves that were not approved.

MR. MOSCOVICH:

Q Mr. Peterson, how old are you?

A Thirty-six.

Q When did you start working for Lethbridge Central Feeders?

A 1951, January.

Q When did Mr. Hatch start working there?

A Not very long before. I think it was June, 1950, that he told me.

Q When did you first become worried and bothered?

A I don't recall. I can't tell you. As I said I did not approve of some of the things, but I didn't become worried about the affairs of the Association.

Q Until when?

A Until 1963.

Q So I am right in suggesting to you that you that you were with the members of this firm from 1951 to 1963 and nothing arosed your suspicion until you became bothered in 1963?

A I didn't say that.

Q I am asking you.

A No. Arose my suspicion as to what? I knew that there was money being given that probably shouldn't have been given in my opinion.

Q That was a matter of judgment, a matter of discretion in the supervisor, and you debated in your own mind whether it was proper or not having regard to the assets of the individual?

A Yes, that is about right.

Q Have you got the minutes handy and I will look them up during the lunch hour, of 1964, March 17th, or thereabouts? I will look them up at noon hour.

THE COURT: There is a memo here of March 31st in the minutes. Houlton resigned, a letter of March 30th as a result of confidence expressed in Hatch at a meeting in Lethbridge on March the 28th.

MR. MOSCOVICH: Thank you very much.

THE COURT: Houlton resigned because of the meeting, not of the Board, but of the members. There was a meeting of the members, of the whole membership, on March the 28th. And there were two members got up and moved a vote of confidence, and it was carried by the members that they had confidence in Mr. Hatch, and whereupon Mr. Houlton resigned.

MR. MOSCOVICH: Well, if it is there.

THE COURT: March the 28th is the meeting of the membership.

MR. MOSCOVICH:

Q Were you present at that meeting Mr. Peterson?

A Yes sir.

Q Did you hear Mr. Houlton tender his resignation?

A He didn't tender it there. He wrote it and sent it to the Board later.

Q Do you recall the members, of those present, at the meeting, approving of Mr. Hatch's conduct?

A I remember that one of the members moved a vote of confidence in Mr. Hatch, and it was carried.

Q Thank you.

THE COURT: This is the minute, Mr. Moscovich, March 28th, 1964, special minute, moved by W. A. Anderson, seconded by Guy Foote, moved a vote of confidence in the Board and office staff and the supervisor, and suggested that they carry on.

MR. MOSCOVICH: Which made the Inquiry unnecessary.

THE COURT: That's right.

Now, have you any questions

Mr. Leitch?

MR. LEITCH: No sir.

THE COURT: Mr. Prowse?

MR. PROWSE CROSS EXAMINES THE WITNESS:

Q Could you tell me---you made out the cheques, didn't you, for the staff in the office?

A No, not---I would have the signing of most of them.

Q The expenses of the office staff, who directed that cheques be made out?

A That would be done, I would probably be in charge of it, and it could be any of the girls in the office that did this. I could have done it at times or they could have, but I would have to sign them.

Q All right. Now, with regard to the field men, were they paid from the---

A From the general account.

Q From the general account?

A Yes.

Q Were they on a salary?

A Yes.

Q And did you,each month did you prepare their cheque along with the rest of the office staff?

A Yes.

Q Now, in regard to expenses, expense accounts, where would you

receive instructions for those?

A Most of the staff handed in expense accounts. They were, a cheque was written upon receipt of that. Mr. Hatch did not hand in an expense account, it was written sometimes by me and sometimes by him. These cheques, by the way, in the general account are to be signed by the President of the Board. We write the cheques, but we hold them until the President comes in and signs them. That is only on the general account, the office operation. Any cheques on that account are supposed to be signed by him.

Q If I was a field man I would make out my expenses forthe month and hand you a voucher?

A Yes, that is right. I would write a cheque and attach it to the voucher.

Q Mr. Hatch would not have to approve of that expense account?

A No.

Q Or you wouldn't have to approve it?

A Well, I wrote it, but I didn't have the approval of it. The President was the one that had the approval. He put the last signature on the cheque.

Q That is all.

THE COURT:

Q Mr. Peterson, these vouchers, were they ever signed?

A For the general account?

Q I am talking about the Feeders Account. These Journal vouchers?

A No, they were not.

Q Number 7 of Exhibit C 1. Now, I am referring to Number 7 of Exhibit C 1, which is a copy of a Journal Voucher?

A No, they were not signed.

Q Never signed?

A No sir.

Q Supposing---Let us suppose two names, and let us use two names that were not there, Prowse and Leitch. Supposing Mr. Prowse had some cattle on a contract, and they were transferred to Mr. Leitch. That would be done by a Journal Voucher, would it?

A They ultimately would go there. Say, for instance, there were 30 cattle transferred from one feed lot to the other, and this, of course, the bookkeeping system over the years has changed to some extent, but the way it is operated now I would write up a sales invoice for the one and a purchase invoice for the other, and then there would be a journal entry made because this gets it into the individual's accounts, but the only journal entry involved there would be the matter that the sales invoice, the debit goes to accounts receivable and the purchase invoice, the credit goes to the cattle account. And there is a Journal entry made to get them into the correct accounts.

Q Now, Prowse owes you $4,500.00 for cattle, is that correct? Say $150.00 for 30 head. Now, all of a sudden on the books they show up in Mr. Leitch's name, and he owes you the $4,500.00, and Prowse is left off the hook. Now, where in

the books is there any authority for that being done?

A In a case like this there would be no difference than buying them from a non-member. These cattle, if these cattle were weighed and sold at a certain price, and they went out with our buyer and they agreed between them that they would take these cattle, or one would take the cattle from the other, and the other one would accept that much, I can see no difference from that than buying them from an individual that was not a member.

Q Now, let us go to the next point where there was a mere transfer of figures without cattle being moved, and you know who I'm referring to, and we will hear about those in days to come. There would be a Journal entry there?

A Yes.

Q Now, did anybody authorize that in writing?

A I doubt it.

Q There is no record at all of any authorization?

A No sir, not that I know of.

Q Now, Mr. Peterson, were settlements ever sent to the feeders?

A Do you mean of an individual purchase?

Q No the ledger.

A They were never completely sent out, but always available on request. We have made copies for many. Anybody that asked for a copy of their account they received them, and in many cases that was the case, and especially at the end of the year.

Q Now, did these big deficiency accounts ever receive a statement?

A I can't tell you that they didn't, but actually the way the Income Tax works through out Association they claim only money that they received or paid to the Association, and in some of those bigger accounts that could have been the case, that they came in and got the amount of money that they received during the year rather than a complete statement of their accounts.

Q A lot of time has passed since advances for feed were permitted?

A I can't remember when they were not, but I think it has increased over the years. Advances for feed, it is a little difficult to tell where that starts and an equity withdrawal begins. A man may have 100 cattle and sell 50 of them, and by that time his account may be down to where his cattle only cost $50.00 a head on the books, whereas they are in reality really worth $175.00 a head. He may have put his own feed in and he may have taken out more money to go and buy feed.

Q I am thinking of where these people have kept their cattle and have not sold any, and you start to dole out feed by these cheques in tremendous amounts.

A I don't know when that started.

Q Now, originally in 1955 and 1956 was there an exact amount kept of cattle owned by the Association?

A There is---I think that it used to be reported that there has never been to my knowledge a balanced cattle account. We have on our ledger cards a place where a man purchases cattle---

Q Just pick one out. Just any one.

A Exhibit L 9, for instance, there were cattle bought, the cost of the cattle was entered as a debit and the number of livestock was entered an 'in' column. When the cattle were sold the credit went through the account and it showed so many cattle being sold. And then there is a balance column.

Q A balance column?

A Yes. By the way, one reason this is just about impossible to keep a natural balance with livestock, there are death losses and things like that that we are not aware of. I know sometimes when feeders come in and we ask them and bring this up to date. Usually it is a matter of a few head, and we would ask them sometimes to write in a new account.

Q But there are several of these ledger accounts with no balance?

A What do you mean by no balance? That it doesn't mean anything?

Q Yes.

A I think that is correct. There are some of those deals, one bunch of cattle overlaps another.

Q And finally a considerable number of cattle just disappear into thin air?

A That may be the case.

Q Now, in the bottom is there a little item there called 'limits'?

A Yes sir, there is.

Q What does that mean? What is the word there for?

A I imagine it is put there to enter the limit of the member.

Q The limit of the member for what?

A The amount of credit that he would be limited to.

Q What happened each year in that regard? You showed us a contract, livestock feeding agreement number 6 in item C--- I believe it is. This is the copy of the agreement between the feeder and the association?

A Yes.

Q And the feeder was a member of the Association in most cases?

A Yes.

Q And for that he paid $500.00?

A Yes sir.

Q And then he signed this agreement, this livestock agreement, is that correct?

A Yes sir.

Q And in that agreement there is a definite limit of the amount of money that he is entitled to?

A The limit on that contract is not for definite actual limit. In some cases where it was over the limit, usually it would be made out to cover the account. It should have been the limit. Now, limits were set up on an individual basis.

Q In March or April of each year?

A Yes.

Q And then a contract was obtained?

A The contract was usually obtained after a man received his livestock. Say for instance a man had a limit of $20,000.00, in reality he got $24,000.00, that may have been made for $25,000.00 to cover it, or $24,000.00 and something.

Q But the limit in this feeding agreement was in no case ever entered on the card that you can remember?

A No, not that I can remember.

Q There is nothing in this ledger, these ledger cards that that idea was ever used?

A I know that it was not used in the last few years. Whether it was used originally I don't know.

Q What was the reason for having the contract if it was not going to be put on the ledger cards as a guid?

A As I stated earlier I did not have access to the list of limits.

Q You didn't know them?

A I had seen it off and on, but as far as knowing where it was kept, I didn't know. I didn't have the handling of it.

Q Now then, when livestock was purchased by the association in latter years, mainly through the holding pens, is that correct?

A I don't know whether mainly through there, but a lot of it.

Q A considerable amount?

A Yes.

Q And then the livestock would be sent out to Mr. Leitch here, a feeder. Did he sign a receipt for it?

A They were supposed to. Receipts were sent out with the invoices, of later years saying - "I have on such and such a date received so many cattle." And this receipt was attached to the contract. In all cases these were not returned and attached, but in a lot of cases they were.

Q It says on the contract--"acknowledgement of the receipt of livestock signed by the feeder shall be conclusive evidence of delivery." But that was not carried out in all cases?

A Actually there was one made up, and a copy kept on file, and you can find out which ones were not acknowledged.

Q Have you the figures in your ledger on the last sale of Riverview Farms?

A Yes sir.

Q Could you read them out? What is the date?

A The last big sale, there is actually one animal came through following that. On November the 6th, 1964, there was 209 steers and 5 heifers sold in the amount of $29,929.65.

Q $29,929.65?

A Yes sir.

Q What did the other animals bring?

A One steer brought $121.46. There was one also in October, October the 6th, for $126.75.

Q Now, what was the balance of that account, if any?

A $3, 407.87.

Q Are there any other cattle in existance to your knowledge?

A The only ones I know about is that they are supposed to be 4 or 5, 3 or 4 or 5, something like that, that are lost that they have not located yet. I don't know whether there are any others or not.

Q Have you sent a statement to Mr. Hatch asking him for payment of this amount?

A No sir.

Q Don't you think that you should have? Or did the Bank tell you to?

A I probably should have. I sent him a statement of what they sold for.

Q Oh, I see. Does he know the amount owing?

A I don't know whether he knows the exact amount.

Q Perhaps his counsel will advise him.

Now, Mr. Peterson, have you a statement---I don't know whether Mr. Weir asked you to get this or not, but have you a statement of the purchase of calves about a year ago from the Church?

A Well, it would be about a year ago October, or something like that.

Q Have you a statement of that?

A No, not with me.

Q Can you get that?

A It is in the Holding Pen records.

Q Perhaps we can get that from Mr. Sucher. Have you, how

were those calves divided up, do you know?

A I don't know the numbers. I know that some of them were shipped East, but I don't know the names of the people.

Q Where did the rest go?

A There would be 200 went to Riverview, to the Riverview farm on a membership account.

Q 200 of the Church calves went to the Riverview farm?

A Yes sir.

Q And the others?

A Some went to Mr. Paxman, and I don't know the number without looking it up.

Q Yes?

A And some went to the ranch of Noel Brandley, and I found out since they were on an inventory basis for the Association.

Q Were they ever charged to anybody?

A No, they were never charged to anybody.

Q Never charged?

A No.

Q Do you know of your own knowledge of the transaction?

A No sir.

Q Do you know of your own knowledge the results of the transaction?

A I know---since the sale of the cattle?

Q Yes.

A I know that with the agreement that is supposed to have taken place, the ones that were on inventory, held on

inventory, of course there was a death loss involved, but the ones sold did not bring quite as much as the cost of the cattle, and there was a feeding agreement that the gain would be paid for at 16¢ a pound, I understand, which would amount to about $20,000.00.

Q And that is a loss of $20,000.00?

A Yes. That involves---by the way, I think there were 397 cattle involved.

Q These calves were put in on the ranch of Mr. Brandley on an inventory basis of what they cost the Association, is that right?

A Yes, that is what I found out since.

Q And then they were sold recently?

A Yes.

Q And the selling price did not quite bring the purchase price?

A That is correct.

Q And then in addition to that the Association has had to pay 16¢ a pound?

A Yes.

Q To the feeder?

A Yes.

Q And who is the feeder?

A In this case they were fed on, what was Mr. Brandley's ranch, but Mr. Hinman now owns the ranch and owns the feed.

Q And has he been paid?

A Partly.

Q Could you obtain the breakdown of this, both the in and the out of these cattle for us so that---

A Yes.

Q Are there any questions arising out of my questions?

MR. MOSCOVICH RE-CROSS EXAMINES THE WITNESS:

Q Mr. Peterson, you were mentioning Mr. Thiessen?

A Yes.

Q Where did his cattle come from?

A I would have to look it up.

THE COURT: You had better look up the ledger card.

MR. MOSCOVICH:

Q Did he get them from Mr. Johanson?

A I don't know where he got them. I know there was money transferred between the two, but whether they were cattle I don't know.

Q Did Johanson have any cattle at all at the same time that Thiessen held the cattle?

A Yes, he had an account.

Q But no cattle?

A They were in Thiessen's possession as I understand it.

Q Yes. Mr. Johanson's name was on the books, but Thiessen had the cattle?

A Yes, that is the way I understand it.

Q Who kept the books, these entries?

Are there any questions arising out of my questions?

MR. MOSCOVITCH RE-CROSS EXAMINES THE WITNESS:

Mr. Peterson, you were mentioning Mr. Thiessen?

A Yes.

Q Where did his cattle come from?

A I would have to look it up.

THE COURT: You had better look up the ledger then.

A I don't know where he got them. I know there was money transferred between the two, but whether they were cattle I don't know.

Did Johnson have any cattle at all at the same time that Thiessen held the cattle?

A Yes, he had an account.

Did he get them from Mr. Johnson?

MR. MOSCOVITCH:

Any cattle?

Mr. Johnson's name was on the books, but Thiessen [illegible]

A The girls in the office.

Q And I am right in suggesting to you that the cattle that Johanson was alleged to have were really in Thiessen's control and possession?

A That is the way I understand it.

Q And Johanson had nothing except a debit mark against his name?

A I believe that is correct.

Q Thank you.

MR. WEIR: I have two questions sir.

THE COURT: Yes.

MR. WEIR:

Q Mr. Peterson, who did have possession of the contract limits to which you referred to previously?

A Mr. Hatch.

Q Mr. Hatch?

A Yes.

Q And one other question. Who had the power to sign cheques on behalf of the Association?

A Well, Mr. Hatch, myself, the President, the Vice-President, and Don Nilsson. As I said, there was the Central Marketing, and there were different signing authorities.

THE COURT:

Q Can you take it easy, Mr. Peterson, and tell us who had the signing authority on the cattle coming in the holding pens? Do you know?

I am right in assuming to you that the result that Peterson was allowed to have was really in Thiessen's correspondence?

That is the way I understand it.

And Jefferson had nothing against a debt ever existing in case?

I believe that is correct.

Thank you.

MR. WELP: I have two questions sir.

THE COURT: Yes.

MR. WELP:

Mr. Peterson, who did have possession of the contract limits to which you referred to previously?

A Mr. Hatch

Mr. Hatch?

And remaining due also. Who had the power to sign warrants on behalf of the Association?

Well, Mr. Hatch, myself, the Trustees, the Vice-President, and Don Thiessen. As I said, there was the General Workmen, and there were different signing authority [illegible]

THE COURT: [illegible]

Can you call it away, Mr. Peterson, and tell us who had the signing authority on the cattle coming in the holding pens?

A I would have signing authority on any account, and so would Mr. Hatch. I believe in the Holding Pens, and I would have to check this, Mr. Sucher also had signing authority. I know that he did.

MR. WEIR:

Q Would a member of the Board have to sign these cheques?

A No. Any two.

Q Any two members of the office staff?

A Yes. The only ones that members of the Board had to sign were the general cheques.

Q At one time did a Board member have to sign all the cheques?

A No, not since I have been there.

THE COURT:

Q Are you sure now? At the moment let's get who can sign cheques. Now, we have the Holding Pens. Who in the Central Livestock?

A Central Feeders?

Q Yes.

A Mr. Hatch, myself, Don Nilsson, and Ted Anderson. The others, I'm not sure whether they had athority to or not. They didn't sign them, like Mr. Sucher and the one, Mr. French, they never had occasion to sign them, and whether it's set up for them to I can't recall.

Q What about Central Marketing?

A Central Marketing, Mr. French, Mr. Sucher, Joanne Stevens, and Mr. Hatch, and myself, would be also there.

THE COURT:

Q Who is Joanne Stevens?

A She, at the time, was doing the invoicing and settling in the Central Marketing.

MR. WEIR:

Q You mentioned that in connection with these Church calves sold, that different arrangements were made with regard to the deal that the Association made with Noel Brandley in the other particular accounts that you have mentioned?

A Yes.

Q Who concluded this, these arrangements? Do you know for certain who concluded these arrangements?

A As I understand it---Do you mean the actual purchase of cattle?

THE COURT:

Q No, the deal with Mr. Brandley and Mr. Hinman, who made that deal?

A I don't know.

Q Are there any new counsel?

MR. DICKIE: Yes, Your Honour, I have to apologize for Mr. MacDonald and myself. We did plan to be here on time, but owing to the position we found ourselves in due to the weather reports we had to change the tires on the car and we did find the road slowing us down. So, we will extend our apologies.

Now, my position on this, Your Honour, would be this. I think that you might consider

that I am in a kind of a dual capacity at this stage. I am a member of the Legislature, however today I am appearing here as counsel representing the Alberta Liberal Party. Now, I think I should perhaps explain that in this position we did consider this, the Alberta Liberal Party, and in view of the limited funds that the party has they did not find that they had funds available for counsel at this time, so in my capacity as fortunately being a member of the bar, I was able to appear here on this Hearing to assist them.

Now, I think we should perhaps also go a little further and invite you to consider our position as a political party at a Hearing of this nature. I would respectfully submit to your Honour that there is precedent for this. I have before me at the present time the report of the Honourable Mr. Justice Roach as a Commissioner appointed under the Public Inquiries Act in Ontario. Now, this is an inquiry that took place down there. This is an Inquiry that took place in Ontario, and with your approval, Your Honour, I would just like to read the remarks of Mr. Justice Roach on this question. He had this to say:-

> "I have heard some criticism of my having extended to counsel for the Liberal and New Democratic Party respectively the right to examine witnesses called by Commission counsel and I think it desirable that I should now state why I did so."

THE COURT: Are you going to be very long Mr. Dickie?

MR. DICKIE: No, not too long.

THE COURT: I think that Mr. Jardine is getting a bit tired and needs a short rest.

(TEN MINUTE ADJOURNMENT)

MR. DICKIE: With your approval, Your Honour, I will continue my submission as to representing Alberta Liberal Party at this time. As I mentioned there perhaps will be other counsel also representing them from time to time, depending on how this Hearing proceeds. Now, I was referring you to the Roach Commission, and I was going to proceed with reading from Page 5 of this commission.

THE COURT: And that Commission is based on what?

MR. DICKIE: It is based on the Public Inquiries Act of the Province of Ontario.

THE COURT: What was it about?

MR. DICKIE: This dealt with the Crime Commission. On Page 1 they refer to the terms of reference of this Inquiry, and for the purpose of clarification perhaps I could just read it.

> "By Letters Patent dated December 11, 1961, you appointed me your Commissioner under The Public Inquiries Act, R.S.O. 1960, Chapter 323, to inquire into and report upon

(1) the administration of the laws and regulations regarding the incorporation and operations of social clubs having regard to allegations made by the Leader of the Opposition in his speech of November 29, 1961;

(2) any improper relationships, as alleged by the Leader of the Opposition in his speech of November 29th, 1961, between senior officials

o of the legal staff of the Department of the Attorney General and any person or persons, and more particularly relating to -

(a) the termination of investigations,

(b) the suppression of evidence,

(c) the payment of money;

(3) the extent of crime in Ontario and the sufficiency of the law enforcement agencies to deal with it."

Now, with those preliminary remarks he then dealt with the position of the counsel. On page 5 of this Hearing they dealt with that aspect, and it reads as follows:-

"I have heard some criticism of my having extended to counsel for the Liberal and New Democratic Party respectively the right to examine witnesses called by Commission counsel and I think it desirable that I should now state why I did so.

The Public Inquiries Act does not prescribe any method or procedure to be followed by a Commissioner in conducting an inquiry thereby authorized save only when the validity of the Commission or the

jurisdiction of the Commissioner or the validity of any decision, order, direction or other act of the Commissioner is called into question by any person affected. Unless the Commission itself prescribes the procedure to be followed - and in this instance it did not - it is anticipated that the Commissioner will adopt the procedure that he considers will be most effectual and appropriate having regard to the inquiry that he is required to make. Needless to say, I concluded that having regard to the nature of this particular inquiry and the circumstances that led to it I should allow counsel representing the opposition parties in the House to examine witnesses called by Commission counsel."

Now, it is my submission, Your Honour, that this right to cross-examine witnesses be extended to myself or other counsel that may be representing the Alberta Liberal Party. They refer to the Public Inquiries Act, and I would like to refer you to the Public Inquiries Act of Alberta, which I will say is very similar. There is no set procedure set out in the Public Inquiries Act, however I note with interest clause 2 of that Act which states as follows:-

"Where the Lieutenant Governor in Council deems it expedient and in the public interest to cause an inquiry to be made into---"

And I refer to this question of the public interest, and I think this is why a political party would wish to be represented here at this Hearing. I will continue reading:-

"... to cause an inquiry to be made into and concerning a matter within the jurisdiction of the Legislative Assembly and

(a) connected with the good government of the Province or the conduct of the public business thereof, or

(b) that he declares by his commission to be a matter of public concern,-----"

I think that the position of the Liberal party would be that this definitely is in the public interest, and it is concerning the good government of the Province, orthe conduct of the public business.

THE COURT: I don't think so. I thought that it referred to "(b)" "that he declares by his commission to be a matter of public concern,---" I can't see that this refers to the good government of the Province. There is no Provincial money involved. The Treasury Branches are not involved, and there is no guarantee by the government as against other feeder associations which are guaranteed by the government. This particular association has no government guarantee at all.

MR. DICKIE: Your Honour, the unfortunate position I find myself in is that I do not have information concerning all phases of it, and I can not tell you today whether I have the information whether the government is involved or

not. So, I would still respectively submit if we are under (b) it is still a public concern.

THE COURT: The government has nothing to do with it in the way of monies or guarantee. The unfortunate people are the Canadian Imperial Bank of Commerce. They are the people that are holding the bag.

MR. DICKIE: That's right. I would certainly have to accept. As I said, I have no information to indicate otherwise at this stage, but there may develop that there might be some suggestion that perhaps even Ministers were involved, and whether they were involved in their capacity as Ministers of the Cabinet, and so forth, and this remains to be seen, and it could come in under those phases. But it is my general submission when you look at clause 2 of this Act, to public interest, good government, and to public concern, that this is a situation where a political party in the Province, I would submit, would be in derelict of their duties if they did not have representation here to make observations and to have the right to cross-examine witnesses. Your Honour, I would submit that we would like to have that opportunity to cross-examine witnesses that are submitted on this Hearing.

MR. MAC DONALD: Your Honour, my submission is very brief. I am here representing the Alberta Land Owners Association.

THE COURT: Who are they?

MR. MAC DONALD: They are a body corporate, incorporated pursuant to the provisions of the Societies Act, and they are interested in good government in this Province, and in a variety of matters pertaining to their Charter. I think they could properly be represented before this Commission under Section 2 (b) of the Act, and we are desirous to have the opportunity to ask questions if and when the opportunity presents itself.

MR. WEIR: I have no objections, Your Honour.

THE COURT: Is there any comment by any other counsel?

MR. PALMER: Your Honour, we have not gone on the record as wishing to represent Mr. Leonard Mahew.

THE COURT: Who is it?

MR. PALMER: Mr. Leonard Mahew.

THE COURT: Anybody else?

MR. PALMER: I think that is all for the time being.

MR. MOSCOVICH: I don't object to Mr. MacDonald or Mr. Dickie appearing. However, you will have to revise your plan extensively, in my opinion, if you are going to---and these are my own views, and I will be very frank, and as much as I enjoy hearing them both, they have no place in this Hearing.

THE COURT: Well, as you will realize the Commissioner is in somewhat a difficult position to decide

who is entitled to be here and who is not entitled to be here. But the Lieutenant Governor in Council, overthe signature of the Honourable E. C. Manning, Chairman, states that this matter is a matter of public concern. Now, the Lieutenant Governor in Council has said so, and it is not for me to say that it is not. I might have some doubts as to how widespread this inquiry should go. It is a matter of finding out what happened, and then if we do so, find out why it happened. At the moment the commission grants the request of two counsel on the understanding that we stick to the matters in question, and that is why this Association, how much money this Association lost, and how it lost it, if we can find out. That is all we are interested in. And also who caused the loss. There may be several causes.

MR. DICKIE: Your Honour, to perhaps dispel any fears that may exist, certainly it is not my intention to make this a witch hunt. We are only concerning, we are only concerned in dispelling rumors and seeking the truth. I think that this is the position we take under an Inquiry of this nature.

THE COURT: Now, have either of your gentlemen any questions to ask Mr. Peterson?

MR. DICKIE CROSS-EXAMINES THE WITNESS:

Q Mr. Peterson, I think that you appreciate that coming a little late I have not all the background, so will you bear with me in my questions. I would like to make the observation that

the counsel for the Inquiry has mentioned that this, that the first steps will be in the line of a preliminary step to gather information, and then go into the details at a later time.

THE COURT: Mr. Peterson has introduced all the records of the three divisions of the Association. He has identified them. He has then told us in this Exhibit "C", this sample exhibit, of the means and methods whereby cattle were bought from outsiders, and brought into the Association, and then distributed to feeders, and how the money was distributed, and how the feeders brought the cattl back into the association, and they were sold on the market or to the packers, and the money brought into the Association and distributed in accordance with the expenses and so on.

MR. DICKIE: Thank you, Your Honour.

Q Would you also have a list, Mr. Peterson, of the various ranches or organizations that deal with the Central Feeders Association?

A A Members Ledger.

Q Is that extensive?

THE COURT: You mean bringing in cattle?

MR. DICKIE: Bringing them in or selling them.

THE COURT: Every person was supposedly a member, and they are all on the members' list. If you are referring to the people who sold cattle to the Association there is no list.

MR. DICKIE:

Q Perhaps by way of illustration my question should be along this line. Have you heard of a Company called Hin Hat Som Ranch Ltd?

A Yes.

Q And that is the correct name, and there is such a company, and we will be going, as I understand it Your Honour, we will be going into details at a later date?

THE COURT: Yes.

MR. MAC DONALD: Mr. Dickie has covered the questions I wanted to ask.

THE COURT: Thank you Mr. Peterson. We may, during the course of the investigation, ask you to look up other documents and bring them forward, but we will give you plenty of warning.

MR. WEIR: Mr. Moscovich would like Mr. Peterson to bring in a cheque, I believe.

MR. MOSCOVICH: Yes.

(WITNESS STANDS DOWN)

JOHN ANDREW WILLIAMS, having first been duly sworn, examined by Mr. Weir, testified as follows:

Q What is your name?

A John Andrew Williams.

Q And your occupation Mr. Williams?

A I am a chartered accountant.

Q What was your relationship with the Lethbridge Central Feeders

Association?

A I have been auditor of the Association since 1945. It originally was Chinook Feeders Association at that time, and in 1950 the name was changed to Lethbridge Central Feeders Association.

Q Will you produce a copy of your auditor's report for this Association from 1959 to 1963, inclusive, please?

A I submit here three copies of the annual report for the years 1960, 1961, 1962, and 1963. The first file are original statements, and the second file are photostats.

Q I would like these originals marked as Exhibits A1, A2, A3, A4, and A5 please?

EXHIBIT No. A 1
Financial Statement-December 31/63.

EXHIBIT NO. A 2
Financial Statement-December 31/62.

EXHIBIT NO. A 3
Financial Statement-December 31/61.

EXHIBIT NO. A 4
Financial Statement-July 31,1960.

EXHIBIT NO. A 5
Financial Statement-July 31,1959.

THE COURT: You have three copies?

MR. WEIR: I have a copy and you have a copy and I am tendering the original as an exhibit.

THE COURT: You are referring to the last two, particularly, 1962 and 1963?

MR. WEIR: We will be referring to 1963 in detail.

THE COURT: I have another copy of 1963, and perhaps it could be put on counsel's table.

MR. WEIR:

Q Mr. Williams, are the dates for the year ends all identical, in these first five exhibits?

A For the years 1959 and 1960 the year end was the 31st of July, but the year end was changed on the 31st of July, 1961, and extended to a 17 month period, and that physical statement is the 31st of December, 1961, and the two latter ones, 1962 and 1963, are both dated December 31st.

Q When did you first become aware of the present financial difficulties of the Lethbridge Central Feeders Association?

A In the course of our examination one of the members of our office staff went to the Canadian Imperial Bank of Commerce to examine the Feeder contracts that were filed there, and as the Bank made available to us their copies of the contracts the list of balances at December 31st was lying at the side, and he noticed that the balance on the list which the Bank had of the members' accounts and the other account was different than the list which he had with him.

THE COURT:

Q Where did he get his list?

A The list that he had had been prepared originally in the office and given to us.

Q What office?

A Lethbridge Central Feeders. And along with it we had our

own list which we had put on working paper so as to give space for additional information.

MR. WEIR:

Q How did you prepare your list?

A Our list was prepared in columnar paper, but from the ledgers of the Association.

Q Now, what was the date that this apparent discrepancy was discovered?

A That was in the forenoon of March 17th,

Q Of what year?

A 1964.

Q Now, what did you do when you were advised of this apparent discrepancy?

A He immediately came back and reported to us what he had observed, and we went back to the Bank with a view of obtaining a photostat of their list, and we sat down and tried to understand the significance of this sort of misrepresentation, and feeling that it implied something very serious we immediately got on the phone with Mr. Houlton, the President of the Association.

Q You are referring to "we". Were you involved personally?

A I telephoned Mr. Houlton myself.

Q You telephoned him personally?

A Yes.

Q And what happened as a result of that telephone conversation? Did you ultimately see Mr. Houlton?

A We contacted Mr. Houlton at Barons, as he was attending a Municipal meeting there, and he thought that he would get in so that we could see him before the afternoon was out. However, his meeting went longer than he expected, and we waited until 7 o'clock and then went home, and Mr. Houlton phoned in the evening and apologized, and we arranged to meet in the morning.

Q Did you see Mr. Hatch, the supervisor and manager, on March the 17th?

A No, not at that time. We never approached Mr. Hatch at all until we had communicated with the Board, or the proper head of the Board.

Q Now, after your conversation with Mr. Houlton did you discuss the matter with Mr. Hatch?

A Mr. Houlton came into our office.

THE COURT:

Q What was the discussion with Mr. Houlton?

A Mr. Houlton came into our office at about a quarter to eight on the morning of March the 18th, and we showed him the misrepresentation that was obvious in the report given to the Bank, and we talked about the implications of it. The next step was to approach Mr. Hatch. We invited Mr. Houlton to come out to the office with us as we confronted him, but Mr. Houlton had another meeting at Barons that day and couldn't go. So at about 9 o'clock in the morning I phoned the office and made an appointment to see Mr. Hatch. Myself

and one of my partners, Mr. Kinell went out and confronted Mr. Hatch with this, with this misrepresentation which he had submitted to the Bank, and he paused and sat back and said - "Well, the jig is up. I am finished. Now I can get the load off my chest."

MR. WEIR:

Q When was this discussion, was it the day after that meeting that you and your partner had with Mr. Houlton?

A No, our meeting was, our meeting with Mr. Houlton was from a quarter to eight until 9 o'clock in the morning, and then this visit with Mr. Hatch took place from 9 o'clock until about a quarter after 12.

Q Was this on March the 18th, 1964?

A Yes.

Q What was your next significant discussion?

A I might say on that interview with Mr. Hatch that all that he really informed us of was that there was a deficiency in certain feeder accounts, and after he had given us an outline of that he proceeded to tell us just before we left that he revealed everything to us that existed in the situation. Now, we went back to the office and prepared a list of the accounts for the bank, and at about 3 o'clock in the afternoon I took it over to the manager with the comments I had received. The next morning at about 10 o'clock in the morning the Vice-President of the association, Mr. Paxman, came into the office and I brought him up to date on the

situation. He had been contacted by Mr. Houlton, in the meantime. Now, on the evening of March the 19th, at 6 o'clock, a meeting of the Board of the Association was called. There was a full Board attendance, and Mr. MacLean was there, and I and Mr. Kinell were there.

Q Who was Mr. MacLean?

A The manager of the Canadian Imperial Bank of Commerce.

Q Yes. Go on.

A And the other members of the Board were informed of the situation, and in the course of the evening we---these accounts were discussed quite briefly and arrangements were made to have a cattle account made by two teams, a member of the Bank staff and a member of the Association staff.

Q You are referring to some notes here, Mr. Williams. When were these notes prepared?

A Well, these are notes that were prepared from our time record, and from notes of the various meetings that we had.

Q Have you these time records here?

A We keep a daily record of our time, and our current sheets are in here and the older sheets are in here.

Q I would like these marked as A 6.

THE COURT: Do any counsel wish these marked?

MR. MOSCOVICH: No, I don't think so.

MR. LEITCH: No.

THE COURT: Does anyone wish them marked?

If you are satisfied with the statement of Mr. Williams that the documents arethere, well and good. If you wish them marked they will be marked. We won't mark them now.

MR. WEIR:

Q Now, you can refer to the meeting between all the membership. Was this the meeting that took place on March the 26th?

THE COURT: He is talking about a meeting of the Board.

MR. WEIR: He was referring to arrangements about another meeting going to be held.

THE WITNESS: There was a meeting called of the membership for--- I would like to--- there is one development that follows that that with your permission I would like to put in.

MR. WEIR:

Q Yes.

A Apparently Mr. Hatch on the Saturday morning of March the 21st contacted a solicitor, and about 10 o'clock that morning I received a phone call from him, and he outlined to me that he had saw counsel, and that he had been informed that if he had made a full and complete disclosure to us, and was prepared to co-operate, that in all liklihood everything would be fine with him. And on the basis of that advice he wanted to inform me of two points which he said that he had not revealed to us on the morning that we confronted him.

And the two points involved was a reference to a cattle loss that had been secreted in an account in the name of Mr. C. W. Heninger, and had been paid off of the Association's records at the year end. And the other point was a $6,000.00 amount in the account of Mr. Allsop for which he indicated to me that this money had been received, but which we had not delivered the cattle for. And he also, as we talked on a little further, indicated to me that he thought there was something involved in Mr. E. S. Heninger's account, and that the account in the name of the Central Trucking of Mr. Pereverziff, that we would likely experience a loss there. And then we wound up that conversation with the statement that it was now everything.

Q Who said "it was now everything"?

A Mr. Hatch outlined to me that that was now everything.

Q So that he indicated to you that at that point that he had disclosed everything to you that should be disclosed?

A Yes. Now, that afternoon there was another meeting of the Board of Directors at which time the Association itself engaged counsel, and Mr. Huckvale was chosen, and it was agreed that all the various securities of the Association, that the Association held would be placed in his hands.

Q Yes. Referring again to your notes, what are the other events that took place up to this meeting of March the 28th? You are just referring to a Board Meeting of March 21st. Is there anything else?

A A membership meeting was called for Saturday afternoon, March the 28th, and the next few days was involved in preparing some sort of a picture which might be presented if called on to present at that meeting. Now, that meeting took place on Saturday afternoon at 2:30 in the Anglican Church Hall.

Q Now, this is the meeting of March the 28th?

A Which was the first meeting of the membership.

Q Now, Mr. Williams, what happened on that particular meeting? What happened at that particular meeting?

A Well, Mr. Houlton convened the thing, and initiated it with a statement, and then he called the, he called on the supervisor to present a statement which he had prepared, and Mr. Hatch got up and read this prepared statement, and then led on to make a suggestion as to how the Association might recover its position.

Q You are referring to a written statement, Mr. Williams. Did you receive a copy of this statement?

A Yes. That afternoon as I pulled up in front of the Court House out here Mr. Hatch was sitting in a car with Mr. Hinman, and he called me over and I sat in the back seat and I had prepared a statement of a balance sheet sort of projecting our loss, and I promised him that I would make, give him these figures which he wanted to use in his presentation at the meeting. And he also gave me a copy of the statement that he was intending to read at the meeting.

Q I would like to have this entered as an exhibit.

EXHIBIT NO. A 6
Copy of statement by Mr. Hatch presented to the membership March 28th, 1964.

Was anybody else given a copy of this statement to the best of your knowledge?

A Mr. Hinman was given a copy of it, and during the course of the reading at the meeting I followed it and I am satisfied that that statement made is practically verbatum to the way it is written there, but it is not a signed document.

Q Your Honour, would you like this document read in by the witness, or just certain portions of it?

THE COURT: I think that it should be read.

MR. WEIR:

Q Would you read it?

A "Mr. President and Member s of the Lethbridge Central Feeders Association Ltd.

During the short period that I am reading this statement today, this question should be going through the minds of the Feeders: 'Of what value is the Feeders Association to me?' Has it been of any value in the Past? Will it be of any value in the future? To many of the new feeders this question will not receive the same answer as the men who have been with us for many years. Yet even the new feeders came to us for a reason and to many of them that reason will be the answer to the question.

Why do members join the feeders association. There are three basic reasons:

1. Because they can get more money with less security for feeding cattle than they can get anywhere else.

2. Because of the advantage of having skilled livestock men doing their buying and selling.

3. Many other incidental advantages such as the Income Tax advantage, the smaller services we render including medicines, branding, vaccinating etc.

The reason of the money advantage is the joint security. We have given a start to nearly every big feeder in the area. After they grew so big that we couldn't handle them, they would go for their financing elsewhere but even then many have left their buying and selling with us.

In buying and selling the fact is that out of approximately 180 members on our books we have no more than 3 serious critics of our Marketing policies and these are feeders in the large growth category that I mentioned earlier. In a recent report of an investigation of livestock marketing put out by the Manitoba Legislature, our method of selling and buying was listed as the most advantageous to the feeder of any of the other methods with the limitation that it still required a public market to establish prices, and we have shown our awareness of that by the establishment of a commission firm on the Lethbridge market.

What then is the purpose of this meeting. It is simply this. The Loaning policies carried out by the Supervisor of your association have been unsuccessful in the cases of a handful of feeders and the security or memberships and reserves are in danger. The sad fact is that these difficult accounts were concealed from the Board, the Bank and the Auditor in an effort to keep the association alive.

How did it happen? Many of you know only too well. The original stated policy of the feeders association was this: 'You put up the feed, we'll put up the cattle and the possibility of loss is very small. In my administration of this stated policy I departed from it in these cases:

1. Men who lost their crop due to weather and had to buy feed and feed cattle to stay in business.
2. Men who got behind in their feeding or farming operations and we assisted them to recover by advances for feed.

Many of these were successful over the 12 years that I have been manager but others only got in deeper until they were in such bad shape that it could no longer be kept from the Board.

This condition became known to the Board about 10 days ago and in calling this meeting today they will give you further details and also a possible solution. You must bear in mind that over 90% of the accounts on our books are in strong position. The less than 10% know who they are

and there would be no point in naming any names in a public meeting.

Mortgages have been taken, Titles are held other securities and prmises are in our hands and every effort will be taken to protect the association. The Board approached the Provincial Government in an effort to reach a solution and this is the reason for the presence here of the Provincial Treasurer. We may add that he has been most helpful.

My own position is this. I offered the board my resignation but told them that I felt I had gotten into the position unwittingly and would do anything in my power to assist in the recovery. I might state though not in the way of any justification for what was done that many of you here today have approached me for advances on your feeding account when it was not justified and you knew it. My main problem was that I tried to do too much for the members. Perhaps I had too much power. I administered $3,000,000 in loans by myself.

This has been a difficult statement for me to make. And I stand now at your disposal. "

THE COURT: We will adjourn until 2 o'clock.

(HEARING ADJOURNED AT 12:30 P.M. UNTIL 2:00 P.M. ON THE SAME DATE.)

THE COURT: When we adjourned Mr. Williams had just completed reading a statement that had been given by Mr. Hatch at the meeting of March 28th, is that correct, and that has been marked as an exhibit, Mr. Woo?

CLERK OF THE COURT: Yes, it has been, sir.

THE COURT: That's A 6?

CLERK OF THE COURT: Exhibit A 6.

THE COURT: Fine. Proceed Mr. Weir.

MR. PROWSE: Your Honor, Mr. Leitch is not here. He was called to the telephone, I just wondered whether you wanted to---

THE COURT: Oh, we can continue. I don't think much will happen.

MR. WEIR:

Q Mr. Williams, did you make a statement at that particular meeting of March the 28th, 1964?

A No. I had prepared a tentative financial statement, but I had given it to Mr. Hatch in advance of the meeting and the, during the course of the meeting he used a blackboard and presented certain figures, and the figures that he presented on the blackboard to the membership in the course of his explanation, showing how a proposal might work out, most of the information that he presented was from those figures that I have given you.

Q So you didn't make any formal statement, yourself, at that meeting?

A No.

Q Why didn't you make a statement at that meeting?

A Well, Mr. Hatch had indicated to me that he felt that he was quite responsible in this, and that he wanted to make the explanation himself, and that there would be no need of me explaining.

Q Were there any other significant events that happened at that meeting of March 28th, 1964?

A Well, that's the meeting that after his statement had been made and a fair amount of discussion had taken place that the, this resolution that has been referred to earlier was moved.

Q Which resolution was this?

A Wherein Mr. W. A. Anderson and Mr. Foote had moved the resolution that a vote of confidence be expressed in the Board, the office staff, and the supervisor, and that we proceed to work out of the situation with all haste, and that resolution carried unanimously with one, except one dissenting vote.

Q Was there anything else of significance that you have marked down in your notes that happened at that meeting?

A Well, the only significant thing was that the auditor was omitted from that resolution.

No, in the course of the meeting Mr. Houlton turned the chair over to the Vice-President, and apparently left the meeting before it was completed.

Near the end of the meeting when the Board was asking certain directions from the membership as to whether they should be

encouraged to press for a new arrangement there was the, the expression was made that the members would, a statement was, there was a statement passed as a resolution, and this was to be set out on a paper and each member present was to sign it as he left the meeting that day, and that was to the effect that, "We, the undersigned members of Lethbridge Central Feeders Association Limited, were present at a general meeting on March the 28th, 1964, and express our willingness to support the Board of Directors of the Association in their negotiations with the bank, and even express our willingness to give a personal guarantee."

Q That is the extent of your notes then, for that meeting?

A Yes.

Q Now, when was the next official meeting called for the membership, that you attended?

A I believe it was April the 20th.

Q Was there anything that you have in your notes in addition, leading up to that meeting?

A Well, in the interval between those two meetings, on about 4 o'clock in the afternoon of March the 31st, Mr. Paxman came into the office and advised me that Mr. Houlton had resigned as President of the Association, and that afternoon at 5:15 there was a Board meeting at which I attended, and that was the occasion in which Cliff Peterson tendered his resignation, and we went to the Board asking them for direction as to how do you proceed from here on. What I mean

to say, what is our position. We act for the members of the Association, they expressed a confidence in the Board and everything that had happened, what were we to do? How are we to conduct ourselves in any investigation that might take place from that point on, and the Board indicated to me that they, at a later time, would express to us, or give us some direction as to how to proceed, and at that meeting also, the question of appointing a new supervisor was mentioned, and Mr. Dogterom's name came into the discussion.

Now, on the morning of April the 6th, about quarter to 12 that day Mr. Peterson came into my office and brought in to me the three exhibits that were tendered here this morning respecting certain accounts that affected the year ends of '61 and '62 and '63.

Q Excuse me. What are the exhibit numbers?

CLERK OF THE COURT: That is the auditor's report?

MR. PROWSE: C 3, 4, and 5, I would think.

CLERK OF THE COURT: 3, 4, and 5, yes, C.

MR. WEIR: Thank you.

A I had a conversation the next day with Mr. Dogterom, who was contemplating stepping in to manage the Association, and he wanted me to bring him up todate as to what had happened, and then in the evening of April the 13th there was another Director's meeting, and at that time we decided not, as the next step in investigating this thing, that we would undertake an examination of the Supervisor and Mr. Nilsson in

front of the Board, and Mr. Hatch was contacted, he came into the meeting and we examined him for an hour, hour and a half, in front of the Board, and following that Mr. Nilsson was brought into the meeting and he was questioned for nigh onto an hour.

Now, in the course of our questioning we were particularly interested in trying to find out from them any areas of personal involvement, and it had just been reported to me a day or two ahead of that that Mr. Nilsson and Mr. Hatch had an interest in some holding pens at Medicine Hat, and that was the first knowledge of it that I had had.

I knew from the records that we had had some very considerable dealings with Mr. Woolley in Medicine Hat, but up until that date I had no knowledge of Mr. Hatch or Mr. Nilsson having any association with Mr. Woolley, knowledge which, if we had of known, would have thrown just a bit of a different light on our transactions with them, from the point of view of audit.

We were concerned with an account of Mr. Allsop's that stood in the Drover ledger, and there was a cheque in that account sent to Mr., or a J. A. Allsop Limited of Toronto that we had no idea of what it represented, and in mentioning it to the Supervisor that day we got a very brief explanation that it referred to some, this Mr. J. A. Allsop is the father of E. Allsop, and that it had to do with a statement of some cattle of his that had been with Jones, and that explanation,

we found out at a later date, was quite incorrect.

THE COURT: Quite what, quite incorrect?

A Yes.

MR. WEIR:

Q Yes.

A We also were interested in determining the extent of his association and interest in this Cranbrook branch, and--

THE COURT: What was the name of that?

THE WITNESS: Hin.Hat.Som.Limited is the name that it was carried in the records as, and he indicated to us on that occasion that it was in June or July of 1962 that he had acquired an interest by taking over an equity of Mr. Layton, who had deceased. He expressed to us that it was a one-third interest that he was acquiring, but at that time he had only paid some $4,000.00 on that equity.

This question of the Pereverziff account was discussed and he admitted to us then that the records of that trucking firm was something that had been kept within the office, which we had heard of it just briefly before that, but he confirmed it to us in the course of that meeting.

There was some discussion of this balance that was lying in the C. W. Heninger account that went back to what we talk of as the Stienberg loss, but at that date we didn't have much background on it, and didn't dwell on it particularly.

There is an account in the records known as Central Cattle

Company, and we hadn't realized that this account was an account of the Supervisor. We had thought that it had to do with the mixes, and there was a credit in that account of $6,960.00, back a few years previous, and we received an explanation that night that it had to do with some cattle which the Supervisor had sold to Paul Gates, but Paul Gates hadn't followed through with the deal in that they had gone to Jones, instead. Now, the entry that, the account that is debited the same time that this credit of $6,960.00 appears in the Central Cattle account was explained in that fashion to us, and we also discussed, in a very small way, the fact that we had a bond and that we should maybe be thinking of making a claim on it, or at least upon the bonding company.

Then Mr. Nilsson came into the meeting.

MR. WEIR:

Q Is this Mr. Don Nilsson?

A Yes.

THE COURT: Who is Mr. Nilsson?

THE WITNESS: He is one of the livestock supervisors of the Association, and we questioned him about his association with the holding pens, and he acknowledged that this was a property which Mr. Woolley had acquired, and up to this time everything was in Mr. Woolley's name, but that Mr. Woolley had held out to both he and Mr. Hatch that they would have a third interest in it, each, when it was fully paid for.

MR. WEIR:

Q When it was fully paid for. Did he indicate that any payments already had been made at that time?

A No, he didn't. He indicated that it represented an investment of five or six thousand dollars.

Q At that point?

A But I don't know the degree that it was paid for.

Q So he didn't specifically indicate that he had already made payments on this investment?

A He was questioned on other areas in this, that he might have a personal involvement, and there was nothing else revealed to us that evening.

We were a little concerned also about, in connection with this Allsop account. In December the 31st, 1962, when we had rendered a confirmation statement to Allsop with the request that it be returned to us, for an account balance of some $30,000.00, at that time. We had heard the rumor just a few days before that that when Mr. Allsop had received this statement in January of 1963, that he had phoned the office of Lethbridge Central Feeders and that Mr. Nilsson answered the phone, Mr. Allsop apparently complained about something in the account that shouldn't have been, and I mentioned to Mr. Nilsson that he had taken the call, according to our advice, and that he had acknowledged to Mr. Allsop that, well, something should be adjusted here, and he admitted receiving the call that night, and the meeting sort of concluded that

I was to contact Mr. Huckvale in the morning with a view to giving notice under the bond, and the next morning that was proceeded with.

Q What is the date now, of the next morning?

A April the 14th.

That brings me fairly well to the membership meeting of April the 20th.

Q Did you make a formal statement, yourself, at that meeting of April the 20th, 1964?

A Not right away.

In the first part of the meeting the Supervisor again gave a bit of an explanation, and indicated that practically all the losses that the Association faced were in the cattle accounts, except for the loss that we might experience in the Pereverziff account.

There was a considerable amount of time spent in the early portion of the meeting considering the bank proposal, and then there was a request from the membership that we give some sort of a report to them, and we had prepared a statement and I read it at that time.

Q Do you have a copy of that statement? I'd like to have this marked as A-7.

EXHIBIT A-7
A statement.

MR. WEIR: Would you please read---

THE COURT: A-7.

MR. WEIR: We are waiting until we get the one that is marked. Could we have it back please, so he could read that one.

THE WITNESS: Would you like me to read the whole statement?

MR. WEIR: Yes. Would you read it, please?

THE WITNESS: "The meeting this evening is called as a special general meeting of the membership of the Lethbridge Central Feeders Association Limited. The notices calling the meeting do not specify the purpose for which the meeting is called, thus contemplating, due to the serious difficulties this Association is now in, that some further explanation of how we got into this situation would be asked for by the members, as your agent we wish to make this interim report to you.

To review our position, we wish to remind you that our firm has held the position of auditor, and that this appointment is made by the membership of the association in the annual meeting, and that our basic function is to report to you, as a membership, on the state of your association's affairs, on the conduct of your staff and on the actions of your Board of Directors whom you elected at the same annual meeting, to conduct the business of the association, and the supervision of your affairs."

THE COURT: Has that been changed, or revised, or---

MR. MacDONALD: We have got a different one, Your Honor.

THE COURT: So have I.

MR. MOSCOVICH: I have a different one, still.

THE COURT: Well, I think everybody has their own. It is the same thought, but in a different language.

MR. MacDONALD: Different phraseology, that's right.

MR. WEIR: The one that he was reading was not signed. This is the one that is signed, let's have this one re-marked as A-7.

EXHIBIT A-7
A statement.

THE WITNESS: Should I re-read that?

THE COURT: Yes.

MR. WEIR: I think maybe you had better.

THE WITNESS: I am sorry about that, I didn't realize there was one of those floating around.

"The meeting this evening is called as a special general meeting of the membership of the Lethbridge Central Feeders Association Limited. The notices which called this meeting did not specify the purpose of the meeting and due to the serious difficulties in which this Association now finds itself, we anticipated that some further explanation of the Associations affairs would be asked for by the members, and we wish to make in the form of an interim report the following comments for your

information.

We would remind you that the position of auditor which we hold is an appointment which you the members make at your annual meeting, and our first responsibility is to represent your interests and to report to you at the following annual meeting on the state of your Association's affairs. Your Board of Directors who are responsible for the conduct of your Association's affairs are likewise appointed at one annual meeting and similarly report to you at the following annual meeting.

This is not an annual meeting but a special meeting called for an unspecified purpose. This statement is merely an interim report, intended only to give you some idea of your present difficulties.

You will recall that on Saturday March 28 at a special meeting the difficulties of the Association were presented to you and we would like to quote from the explanation given to you at that time by the supervisor.

Quote "What then is the purpose of this meeting? It is simply this. The loaning policies carried out by the supervisor of your Association have been unsuccessful in the cases of a handful of feeders and the security of memberships and reserves are in danger. The sad fact is that these difficult accounts were concealed from the Board, the Bank and the Auditor in an effort to keep the Association alive.

"How did it happen? Many of you know only too well. The original stated policy of the Feeders Association was this: "You put up the feed, we'll put up the cattle and the possibility of loss is very small. In my administration of this stated policy I departed from it in these cases.

1. Men who lost their crop due to weather and had to buy feed and feed cattle to stay in business.
2. Men who got behind in their feeding or farming operations and we assisted them to recover by advances for feed. Many of these were successful over the 12 years that I have been manager but others only got in deeper until they were in such bad shape that it could no longer be kept from the Board." End of quote.

I would like to repeat from that explanation.

Quote: "The sad fact is that these difficult accounts were concealed from the Board, the Bank and the Auditor in an effort to keep the Association alive." End of quote.

Later you were informed that the Association faced a possible loss of $570,000.00.

After hearing that report you passed a motion of confidence in the supervisor, the Board and the staff of the Association. Due to your action our investigation into the full scope of the situation has not been pressed much further. Such a vote of confidence indicated to us that the membership felt no need

for further action on our part.

This possible estimated loss of $570,000.00 has two phases. Approximately $458,000.00 of this amount is in accounts with members of the Association who have been advanced funds in excess of the estimated equity in the cattle on hand as estimated on the 24th of March 1964. This portion of the loss relates to 22 members of the Association.

In assessing the possible loss, information on the number of head of cattle on hand, their valuation and the availability of other securities, has been supplied by the supervisor.

It is estimated that approximately $100,000.00 of this $458,000.00 may be recovered by continued feeding out of the cattle involved.

It is further estimated that an additional amount of approximately $100,000.00 may be recovered because of the securities which are available. However the prospects of collection of the balance of approximately $258,000.00 are not very bright.

Now what are some of the factors which have contributed to the development of this situation. It is our opinion that the following considerations have played a part in development of your Associations difficulties.

In the banking arrangement two types of credit are availabe - for financing contract cattle and for financing Drover transactions - i.e. purchases and sales on short term basis till settlements are received. This required two types of accounts receivable:

Firstly the contract cattle which are recorded in a members contract ledger.

Secondly the Drovers ledger for these other transactions with members and non-members."

THE COURT: May I interrupt there to suggest that that refers to what we have been calling N.A.B. ledgers?

THE WITNESS: Yes, that's right.

Q Non-Association Business?

A Yes.

Q Alright, continue.

A "Thus a member can have an account in each ledger. This afforded the supervisor the opportunity to carry some of the undermargined contract accounts in the Drovers ledger and this was used to a considerable extent in concealing the status of some accounts. A certain amount of transferring from one ledger to the other occurred, in such a way as to make the accounts appear more active and current.

The list of balances which we were supplied with at the year end, were prepared in accordance with the records. However the list of balances given to your board and to the bank at the year end and from month to month understated the undermargined accounts and overstated the smaller accounts in whose names the amount appeared to be reasonable. Thus the Board did not have the right information to assist them in the administration of the Association's affairs and the bank were not aware of the dangerous accounts because they

were understated to them thus rendering ineffective the banks supervision of the amount of the accounts and checking on the cattle security. Such misinformation rendered ineffective the reliance placed on both the function of the Board and the roll of the bank in the supervision of the amount and collectability of these accounts.

We have repeatedly reported to you that our attempt to verify the balances directly with the members was never satisfactory as only approximately one third of the members actually co-operated with us in this respect. You will recall us reporting this to you year by year and no particular concern on your part was aroused.

We must point out that the members don't actually dispute their balances. Its very largely a matter of them having received more credit than they should have and are now not in a position to liquidate this credit.

You must realize how the Association has grown over the years and that for the past number of years the volume of business has exceeded $5,000,000.00. Now obviously as that volume of business grows and the number of bookkeeping entries grow the possibility of error and the opportunity for deception increase proportionately. At one time we had both a livestock supervisor and a credit manager but for various reasons over the years the duties and responsibilities of these officers have been centralized in one man and another very valuable method of control has been lost. Then too

some years ago all cheques were signed and countersigned by your directors but with increased business and with the pressure of demands for immediate settlement from the members and other business transactions, it became expedient to have the cheques signed and countersigned within the office, and here again another very valuable method of checking was lost and the disbursement of funds came substantially under the direct control of the supervisor. Another contributing influence was the considerably easier terms and increased amounts of credit negotiated by the supervisor when the arrangement was set up with the Imperial Bank. All these factors contributed to a greater or less extent and each must be taken into consideration when assessing responsibility for the present situation.

The losses on cattle feeding this past fall and winter have moved borderline accounts into badly undermargined positions.

As previously reported by your supervisor at the meeting in March the practice of making advances under pressure from the members has grown. A great many of the members have received advances from the supervisor which were not really contemplated in the objects of the Association. In some instances these have gone beyond the limits of good credit and have far exceeded the loans the members could have obtained through recognized lending institutions.

In certain cases members have allowed their accounts to be

used for the benefit of others, and we are not qualified to give an opinion as to the legal liability of these members and we would recommend to you that you obtain legal advise with regard to collecting these accounts. In other accounts false entries were made without the members knowledge and the books were juggled by transferring loans from members whose credit was stretched too far to other members who were not utilizing their credit.

As we have reported in previous years there are still two accounts where the outstanding loss was originally incurred as a result of the foot and mouth disease. Although these have been somewhat reduced over the years we must still make provision for a loss of approximately $16,300.00 which we can attribute directly to this 1952 period.

And don't discount the human side there is no doubt in the world there was too much discretion and authority concentrated in one man.

The second phase of loss which the Association faces in in the Drover accounts where approximately $112,000.00 is almost in the irrecoverable category.

Approximately $58,000.00 of this amount has ended up in two accounts which for the last several years have been covered up over the year end by persons paying in money for what they thought was an income tax arrangement for their own purposes but which also served the supervisors purpose of wiping out on the Association records an amount which

actually represented losses of the Association. This would be paid back to the persons concerned in the early part of the following year and then the loss would continue for most of the year as a loan in among other amounts. This in turn would be wiped out again by a cheque at the year end. These losses appear to have commenced with the Stienberg Contract. When this contract was closed out in the fall of 1957 there was supposed to have been approximately $40,000.00 worth of livestock and feed on hand, and this was all charged to the respective feeders involved. We are now advised by the supervisor that about $26,000.00 actually was lost on that contract and should never have been so charged. It appears that trying to cover up this amount, a system of misrepresenation was cleverly instituted which has followed through and in the process grown to $58,000.00. In the intervening years the original $26,000.00 amount would have grown by interest of approximately $10,000.00 to better than a total of $36,000.00. Recently some other losses of approximately $8,000.00 on cattle dealings have been admitted. But at this date we are not sure of how the balance of $14,000.00 of the $58,000.00 came about through the cattle trading account. We don't know what it represents. Buried in numerous transactions in a Mr. E. Alsop account are some cattle dealings and resulting losses for which he does not appear to acknowledge responsibility. The amount accumulated in this account is approximately $19,000.00.

There is a faint hope of recovering approximately $5,600.00 of this amount.

As you all know we send out confirmation statements to all debtors of the Association at the end of each year. For some reason unknown to us this man chose to complain by telephone from Toronto about the discrepancy in his account to the Association office rather than to the auditors. This is just another instance where normal audit procedures have been rendered ineffective by lack of co-operation.

Approximately $35,000.00 has been extended to a trucking business of John Pereverziff. This account was concealed to quite an extent at the year end by applying cattle settlements due to other persons to it because they actually didn't want their money till the following year. The amount we stand to realize on the equipment involved is a very questionable amount.

It is claimed that the whole pattern of the concealment involved here has been for the good of the association in order to keep it alive. We can't subscribe to this philosophy because without the pattern of concealment you may have met the situations as they occurred and worked them out and not have found yourselves with such an almost impossible task.

We have been concerned to the extent that the staff of the Association have been involved in all this and aware of it. The supervisor has admitted full responsibility for what has happened and to date we have found very little that would

involve other members of the staff.

In view of the present circumstances of the Association and as auditors we must be on the lookout for personal benefits accruing to members of the staff in the nature of a kickback of one kind or another as a result of excessive credit being extended to members, inadequate collection practices, and through other dealings of the association. There are innumerable ways in which dishonest employees can benefit themselves at the expense of the employer and it is standard procedure for auditors to check out this possibility in circumstances such as we have here. Now this assumes greater importance when you realize that your liability as members can be reduced by the amount of any recovery of such unwarranted benefits received by employees.

At this time we actually have no proven instances of personal benefits. Three members of the staff have been questioned by us in front of the Board and the situations that we had learned of were acknowledged and no other instances were admitted. It is only within the last 10 days that we became aware of the fact that both a fieldman and the supervisor were partners with another person in the Medicine Hat Holding Pens. Now this is the type of situation we have just referred to but we have no evidence any members of the staff have benefited at the expense of the Association.

Please be assured that this report is made in our capacity as auditors as we feel we have a duty to lay before the

members the facts as we know them up to this time and as always we will be governed by your instructions and we look to this meeting to give us some direction."

MR. WEIR:

Q Now, what happened at the meeting after you delivered this address referred to as Exhibit A-7?

A Well, there was one question put to us as to what we would recommend be the conduct of the Association from here on, and as I recall, we indicated to them that we felt the situation warranted working very closely with the solicitor, and that as a membership you should express to your Board that they pursue an investigation in conjunction with ourselves, in the aid of a solicitor, and as I recall, Mr. Olsen stood up and said, "I move accordingly", and that resolution was carried.

However, the resolution that ended up by being expressed in the minutes is one that made no reference to a solicitor, or made no reference to the Board, but purely referred to ourselves, and we took objection to that afterwards, but neither the Board of Directors supported us in it, nor did the subsequent membership meeting.

Q What is this document you are looking at here?

A Well, this is a copy of a letter that we submitted, objecting to the nature of the resolution where it places the onus on us, entirely, where we didn't feel it was our responsibility to proceed alone. We felt it was only our responsibility to

proceed in conjunction with direction from the Board, and be governed by advice from a solicitor.

Q Could we have this marked as A-7, please. A-8.

CLERK OF THE COURT: 8.

THE COURT: That is a letter to the Board, dated---

THE WITNESS: The 6th of June.

CLERK OF THE COURT: 1964.

EXHIBIT A-8
Letter dated June 6th, 1964.

MR. WEIR:

Q Would you have that briefly marked, and Mr. Williams could read it in, please.

Would you please read this letter, then, which is now marked as Exhibit A-8.

A We addressed this letter to the President and Board of Directors.

"At the membership meeting of 20th April 1964 after I had made an oral report on the affairs of the Association I was questioned by one of the members as to what we would suggest as to the procedure to be followed from there on.

As I recall my remarks I suggested that there was a large area of our loss that continued checking would not serve any good purpose but that there were some areas that would be worthwhile to pursue if they might lead to further recovery and thereby minimize the loss. My suggestion was that you

instruct your Board, your solicitor and your auditor to proceed in the manner that they jointly feel would be worthwhile. My recollection is that Mr. Olsen then moved that accordingly.

The motion as presently recorded is "motion by D. Olsen that auditors be given the go ahead with areas they see fit to clear any names involved"."

THE COURT: What was that again? What is the wording of that motion? It's a positive approach, as I see it, would you read it again?

A "motion by D. Olsen that auditors be given the go ahead with areas they see fit to clear any names involved."

THE COURT: Yes.

THE WITNESS: That was seconded by Mr. M. Holt, and carried.

"We submit that the recorded motion does not convey the action taken. We would not have accepted it on our own responsibility. The board are primarily responsible and our purpose is to work with you as you feel it is necessary in the collective interest of all the members. The situation is of such a nature that we feel all of the actions and decisions should be taken with the aid of legal council. We feel that a solicitor should be fully informed of the whole picture and help guide and direct us all through it."

MR. WEIR:

Q Now, is there anything else that you have, relating to that meeting, or leading up to the next meeting?

A Now, the following day, that is April the 21st, a Mr. Maloff came into the office and we took the opportunity of questioning him about a few rumors which had come to us, and Mr. Dogterom, the Manager of the Association, and myself, spent about two hours questioning Mr. Maloff with respect to some purchases of, a machine purchase which had been indicated had been bought by the Association, and also the arrangement that he was operating under it with respect to being paid finding fees for cattle which the Association purchased.

Q Excuse me. Before you go on, is there anything more, in detail, that you discovered at that particular meeting, or are you going to follow up this in later testimony?

A Well, the rumor had come to us that there was a grain auger which had been purchased with an Association cheque and, from Mr. Maloff. Now, in the course of our interviewing him that afternoon, he was most co-operative, and really, he proceeded to tell us, without us really pressing for the points that we were concerned to have information on. Now, he did mention that there was a grain auger purchased in the amount of $2300.00 with an Association cheque, and he indicated to us about the point of time that it had happened, and with that information we went back and looked in the Riverview Ranch account, and under date of August the, or October the 28th, cheque 5451---

Q What year?

A That's 1963, by cheque 5451, a cheque had been made to Mr. Maloff for this purchase, and charged as an advance in this account of Riverview Ranch.

On the 23rd of April the adjuster for the bond company came in and spent several hours with me with a view to getting a preliminary picture of the situation.

Now, on the 20th of May, in the afternoon, there was a meeting with Mr. Huckvale and a committee of the Board which had been set up to work with us in this respect, and at that time we went quite fully into the areas that we would proceed to investigate more thoroughly.

MR. PROWSE: Who were the Board, if I may ask?

THE WITNESS: The Board of Directors consisted of Mr.---

MR. PROWSE: No, but this committee that---

THE WITNESS: Oh, this is a committee consisting of Mr. Paxman, Mr. Nichol, and Mr. Dyck, who had been authorized by the Board to work closely with us.

Now, at that time Mr. Huckvale brought us up todate as to where we stood on the various securities which had been turned over to him in the form of mortgages and chattel mortgages. This Burke account was discussed quite fully. The Bishop and Johansen account was covered quite fully. The Hornberger mortgage, the chattel mortgage of Heggie's, and there was quite a number of the other accounts in which loss was expected that we dealt with that afternoon, to a degree.

Now, on the evening of May the 22nd, we went back to another Directors meeting and got full Board approval of the steps that we were taking. We reviewed all the deficiency accounts with all of the members of the Board, and they directed us to go more fully into this Alsop account, which we followed up by, initially, proceeding to write a letter showing an analysis of the account and asking him for details on the various unexplained amounts that were in it, and that is the evening that they also decided to sell the trucks which had been taken over from Pereverziff.

THE COURT: Have you got copies of the resolutions passed at that meeting with reference to what you were to do? I am, I couldn't quite understand them, reading them. Primary motion was made, and was defeated, then Mr. Nichol and Mr. Stevens made another motion, and then there was an amendment, there was no seconder, or it was lost, and then something was carried, and I'm not quite sure what was carried. Do you--- You might look in the Minutes.

THE WITNESS: That is the meeting of what date?

Q May the 22nd.

A That is the membership meeting?

Q No, it is the Directors meeting, isn't it? I have under a Directors--- May 22nd. It's the meeting you are talking about, in which you wanted directions to form proper conclusions about the accounts, themselves, the internal questions, and so forth, and then, as you said, the Johansen,

Bishop, Wilde accounts were all discussed, and then there was some motions passed, after. I couldn't quite get through my head what the final motion was.

A Well, as I recall it the decision was that we should have the Association's solicitor undertake, or enter a suit against, Bishop, Johansen, and then it was a question also of whether Wilde should come into it, and it was whether Wilde should be in it or not in it is where the confusion came about, in that--

THE COURT: Motion.

A Motion, and---

Q I see.

A It ended up, as I recall, by just deciding at that point that action should be commenced against Mr. Johansen and Mr. Bishop.

Q That was in what, May? May, yes.

A May the 22nd.

Q Right.

A I think.

Q Yes, that's it, May the 22nd.

A On May the 24th I got rumors about finding fees being split with the recipients. However, up until now I have absolutely no evidence of it, and it was a rumor that I tried to check out but I have succeeded in establishing nothing in that area. There was a Directors meeting on June the 4th, which Mr. MacLean, of the bank, was present, and it was largely involved with discussing a proposal for getting back into business. Another meeting on June the 18th, the first part of which was

A It ended up, as I recall, by just deciding at that point that action should be commenced against Mr. Johnsen and Mr. Bishop.

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A May the 22nd.

Q

A think.

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it was a rumor that I tried to check

in establishing nothing in that area.

e on June the 4th, which Mr.

Mack, of the bank, was

with

devoted to a discussion on the private reserves and---

MR. WEIR:

Q Was this a Board meeting?

A A Board meeting, yes. And the latter portion of it was devoted to formulating a claim to submit to the bonding company. It was agreed to submit a claim to the bonding company.

On the afternoon, in the morning of June the 19th, the committee of the Board met with myself and Mr. Huckvale, with a view to organizing---

MR. WEIR:

Q Is this the committee that you have referred to previously?

A Yes.

And on the evening of June the 19th they were all set to submit a claim under the bond. The supervisor became aware of it, somehow. The following morning real bright and early he was out and saw Mr. Paxman, by 9 o'clock he was back in the City, in my office, and he was very critical of me for persecuting him in this, seemed to feel that I was spearheading this agitation to have a claim on his bond.

THE COURT: What finally happened?

A Just a minute, I've got a little ahead of myself here. There was a special membership meeting on June the 20th, that Saturday afternoon.

MR. WEIR:

Q Now, this was before, then, your conversation with Mr. Hatch?

A Yes.

Q I see. Now, this meeting of June the 20th, 1964, this is the meeting of the members that was, first meeting of the members that was called since the meeting of April the 20th, 1964?

A Yes.

Q Now, what specifically happened at that members meeting of June the 20th, 1964?

A Well, Mr. Hatch outlined to the meeting his personal plans, and stated that he felt some responsibility for what had happened, and agreed to do all he could to put the organization back together again, and indicating that he was prepared to give all summer for that purpose, if it was so desired by the Board, or by the Association, and then the rest of the meeting was devoted to considering the bank proposal, and it ended up by being defeated, and not accepted in the terms that it was presently worded.

Q Did you make a formal statement, yourself, at that meeting?

A No, I made no statement that night.

Q I understand that the next meeting that was officially called was on August 10th, 1964, of the membership?

A That was the annual meeting.

Q Have you some notes relating to the chain of events from June the 20th up to this meeting of August 10th, 1964?

A At a Board meeting of July the 2nd the company solicitor was in attendance. That was the night that they decided to

close down trading in the central livestock marketing, to give the staff a month's notice, and there was consideration given as to how they might carry on by using a commission firm for the purchase of sale of livestock.

Now, we were joined later in the meeting by Mr. Strome and Mr. Hinman who were concerned as to what was happening down here. We hadn't been keeping the Department of Agriculture informed, and Mr. Strome was anxious as to what was happening, and wished that we were keeping him better informed on what was developing.

On the, it was the afternoon, I got my dates mixed up there just a bit earlier.

Q You are referring to this conversation with Mr. Hatch?

A It was on the afternoon of July the 3rd that we had this meeting and prepared the bond application, and it was Saturday morning, July the 4th, that I was visited by the supervisor with a view to, and then---

Q With a view to what?

A Well, he was very critical of me for persecuting him in submitting this bond application, and it was on Tuesday evening, July the 6th, that the Board made and accepted a settlement rather than file as a claim on the bond.

THE COURT: The 6th or the 7th?

THE WITNESS: Well, it was July the 7th. I was in Calgary that night and I was informed of what had happened the night before by Mr. Huckvale, the following morning.

MR. WEIR:

Q Not that it makes too much difference---

A Yes.

Q But my note is here that that meeting was held on the 7th of July according to the minutes. The minutes may be mis-dated, of course, but it doesn't matter, go ahead Mr. Williams.

THE COURT: So the Board took over certain of Mr. Hatch's properties on the 7th, is that correct?

A Did I say 7th, or 6th?

Q It doesn't matter, I have the 7th here.

A It is the 7th.

Q It is the 7th, is it? Alright.

A Now, after that settlement was accepted there was still an area of items that we were concerned about which the supervisor had not agreed to, and on July the 14th we endeavored to pursue those items further. However, as you will note from the special report, there is still a series of items that we were following at that time that we still had no explanation of.

MR. WEIR:

Q You are referring to the special report to the Board of Directors dated August the 10th, 1964?

A Yes.

THE COURT: Well, is there any reason why we can't now come down to the meeting of the 10th?

THE WITNESS: No.

Q Now, as I have read the minutes, and I must say that I have read them all, on the 16th and the 17th and the 20th and the 30th, and the 4th of August and the 6th of August, and the 7th of August, and the 12th of August---

THE WITNESS: Actually in the interval there, really what transpired was, the Board held special interviews---

Q That's right.

A With the major portion of the difficult accounts.

Q Yes. They talked with all these large accounts, one by one, in these meetings?

A Yes, and we sold off some of the equipment by tender.

Q Well, can we take it then that on the 10th, is it the 10th of August, a regularly general annual meeting was called at which due notice was given to all the members?

A That's Wednesday, August the 12th.

Q 12th?

A Yes.

Q And how many attended, roughly? Have you any idea?

A I would have thought 70 or 80. I'm not just sure. I haven't---

Q And at that time you presented your annual report, your annual audited report. Sorry, it's August 23rd, isn't it?

A August the 12th.

Q August the 12th?

A Yes, is the date of the meeting.

Mr.

MR. WEIR:

Q This is the annual meeting?

A Yes. Now, that had been preceded by a Board meeting at which we submitted a special report.

Q Have you a copy of that?

THE COURT: Alright. We will now have the annual report presented, and the special report presented.

MR. WEIR: Well, the annual report is already A-5.

THE COURT: Yes, but we will have the salient parts of it read, and the salient parts of the special report read.

MR. WEIR: I was just going to have the special report marked, simply as an exhibit, and then we will go into detail on it.

THE COURT: That's---

MR. WEIR: A-9.

THE COURT: A-9, special report, alright.

EXHIBIT A-9
Special report.

MR. WEIR: Now, this special report which is now marked A---

THE COURT: Nine.

MR. WEIR: Nine, was this---

THE COURT: Now, having had it marked I think we will adjourn for 15 minutes.

THE COURT: Alright. We will now have the annual report presented, and the special report presented. Well, the annual report is

Yes, but we will have the matters parts : It read, and the matters parts of the special report read.

MR. WEIR: I was just going to have the special report marked, simply as an exhibit, and then we will go into detail on it.

THE COURT: That's---

A-9.

A-9, special report, alright.

MR. ' ETR:

was this---

having had it marked I think

(COURT ADJOURNED AT 3:10 P.M. AND RESUMED AT 3:30 P.M.)

MR. LEITCH: Your Honor, I wonder if Mr. Williams might be permitted to sit down while he is giving his evidence?

THE COURT: Oh, definitely, yes.

MR. WEIR: Your Honor, I continually mention the fact that he is only too welcome to sit down.

Before proceeding, Your Honor, we have this cheque that Mr. Peterson just brought in, that Mr. Moscovich was asking about this morning. Would you like Mr. Peterson recalled for just a moment, or---

MR. MOSCOVICH: No, you can hold it until we are through with Mr. Williams.

THE COURT: Well, I was just wondering, maybe Mr. Peterson might not want to come back tomorrow, he might have other things to do.

MR. WEIR: He is here now, Mr. Moscovich.

THE COURT: He is here. Perhaps you should just call him and have him identify the cheque.

(WITNESS STANDS DOWN)

CLIFFORD PETERSON, having been previously sworn, examined by Mr. Weir, testified as follows:

Q You are still under oath, Mr. Peterson?

A Yes. What did you want me to do?

Q Well, Mr. Moscovich would like to ask you some questions.

MR. MOSCOVICH EXAMINES THE WITNESS:

Q We were discussing this morning, you are still under oath, Mr. Peterson?

A Yes.

Q The fact that your father, I think, got a refund of some monies in connection with that, for which a cheque was issued in the amount of about $1400.00?

A Yes sir.

Q Will you tell us what it was for, please?

A It was a return of his membership of $500.00, an old reserve of $304.46, and a private reserve of $608.86.

Q What was the date on that?

A July the 5th, 1963.

Q 1963. Mark that as an exhibit.

THE COURT: Exhibit---

MR. WEIR: C. What is the length of the C exhibits now?

THE CLERK: Should be C-7, I think.

MR. LEITCH: C-7. C-6 is the last one I have.

MR. WEIR: Fine, C-7.

EXHIBIT C-7
Cheque dated July the 5th, 1963.

THE COURT: And as you previously stated, Mr. Peterson, that return was okayed by Mr. Hatch and was presumed to have been taken to a Board meeting?

THE WITNESS: Yes sir, and something I didn't mention, is, I told Mr. Houlton a matter of a few months

ago, that this was questioned, and he said that he remembered it being brought up and approved at a meeting, although it wasn't put in the minutes.

MR. MOSCOVICH:

Q It is signed by Mr. Sucher and yourself?

A I didn't notice.

CLERK OF THE COURT: Sucher.

THE WITNESS: That such was the name.

THE COURT: Alright, that's all.

MR. WEIR: Thank you Mr. Peterson.

(WITNESS STANDS DOWN)

JOHN ANDREW WILLIAMS, having been previously sworn, recalled, on direct examination by Mr. Weir, testified as follows:

Q This document that was just marked prior to the adjournment as A-9, which is the special report dated August the 10th, 1964, this was presented to the Board meeting of August the 10th, was it, or was that meeting August the 12th?

A It took place at 3:45 to 6:15 on the afternoon of Wednesday, August the 12th.

Q This is immediately prior to the annual meeting of the membership?

A It was convened at 7 o'clock that evening.

Q Now, was this exhibit A-9 presented to the membership meeting, as well?

A No, it wasn't presented to the membership meeting.

Q Could we have Exhibit A-5, please. I am looking for the Auditor's Report.

THE COURT: A-5.

THE WITNESS: There was three numbered there at once, four numbered at once.

MR. WEIR: Oh. This is the one I am looking for. I thought the Auditor's Statements were marked A-1, 2, 3, 4, 5, 6. It's A-1, I beg your pardon.

THE COURT: Now, what is that marked as?

MR. WEIR: Referring now to Exhibit A-1, which is the Auditor's report for the period ending December 31st, 1963.

THE COURT: Oh, yes. The numbers go up as the years go back, is that it?

MR. WEIR: Well, yes, apparently so.

THE COURT: Is that the way they have been marked?

MR. WEIR: Apparently so.

CLERK OF THE COURT: That's right, Your Honor. March the 14th, 1963.

THE COURT: What is that number?

CLERK OF THE COURT: That's the Auditor's Report.

THE COURT: What number?

CLERK OF THE COURT: A-2.

THE COURT: Yes. Well, just put them in reverse, okay.

MR. WEIR:

Q And this is the report that you presented at that general meeting of the members?

A It is.

Q Could you, would you mind reading, commencing the beginning of the report and outlining in more detail the specific items mentioned on page 1?

A This is our report, dated August 10th.

"We have examined the balance sheet of Lethbridge Central Feeders' Association Limited as at December 31, 1963 and the statements of revenue and expense for the year ended on that date. During the course of our review of the accounting records, a series of irregularities became evident which involved enlarging the scope of our examination in an effort to determine the extent of the situation. We have been guided in the programming of our examination by an endeavor to keep our efforts within a reasonable cost and in so doing have worked closely with your Board of Directors. Even after having performed a very extensive investigation we are far from certain that we have had revealed to us the full story of all the irregularities which have occurred.

Mismanagement of the Association's affairs and the irregularities which occurred have precipitated a deficiency of $844,689.00."

THE COURT: And 19 cents.

THE WITNESS: And 19 cents.

"The latest assessment of the deficiency was made as of July 31, 1964 when we had the benefit of what has transpired in the seven months subsequent to the year end. The deficiency may be summarized as follows:

Provision for loss on deficiency accounts:

With respect to members.....$635,446.01"

MR. WEIR: Mr. Williams, before going on to the next item would you turn over to page two and read in the breakdown of that particular---

THE COURT: Oh, I think we will get that in the special report.

MR. WEIR: It was just a quick summary of it.

THE COURT: Well, we will be reading the whole of the special report on that page, so let's---

MR. WEIR: Okay.

THE WITNESS: "And then with respect to others, that refers to the accounts in the Drovers ledger, or the N.A.B. ledger, as it is sometimes called, $62,972.19, or a total provision for loss on uncollectable accounts of $698,418.20. Then the accumulated loss on cattle trading transactions $67,564.27."

Now, that is very largely the amount that was in the Heninger accounts that went back and originated with the Stienberg loss, and grew into the $58,000.00.

Would you like me to enlarge on the details of that now?

MR. WEIR: Yes.

THE WITNESS: There was $47,812.50 in the account of C. W. Heninger, which had been removed from the records of the Association by a cheque received from him in the last part of the year, and we adjusted so as to set that back up as a liability, and that figure is part of our $67,000.00. There was also an amount of $10,244.89 in the account of E. S. Heninger that was related to the same thing. There is $1826.61 that relates to the same thing, but applied to the account of J. Klassen. There's $598.00 in the amount that is the write-off of a balance in Allsop's account that had to do with freight and the shipment of some cattle to Allsop that for some reason we never recovered. There is also $4,297.14 in there writing off some elements in the Allsop account that related to a feeding deal which was set up between Graham and Houlton, Mr. Houlton. The balance of it is made up of some small differences that occurred during the year 1963.

MR. WEIR:

Q Now, you have referred to the Stienberg transaction. Would you go into more detail on that particular transaction, when it first was concluded, and the other circumstances relating to that loss?

THE COURT: I wonder, Mr. Weir, if we could just go through this statement and then come back to the details.

MR. WEIR: Okay.

THE COURT: What do you think? Wouldn't it be

—

a better---

MR. WEIR: It's whatever you want, Your Honor.

THE COURT: Well, I am thinking of, these gentlemen in front of me, this is all cold to them, and if they are going to properly understand and items, I am just thinking if we had a summary to start with and then start back, otherwise--- What do you think, Mr. Williams?

THE WITNESS: Well, I do feel if we maybe covered this presentation and then enlarged on it it would fall into place a little better.

THE COURT: That's what I mean, let's do that. Go ahead.

THE WITNESS: Then, a provision was made to write down the investments and the assets of the Association, to what was expected to be their fair market value, and it involved a write-off in the holding pens, equipment and property in the amount of $36,019.25, and then in order to reduce the bond investments, in both the membership bonds and the reserve bonds to fair market value which was contemplated, now that they would be sold, it involved a write-off there of $5,172.14 in order to bring them down to market in relation to their original cost. So that in the way of writing down investment value we have the amount of $41,191.39.

Now, the estimated loss due to the guarantee of the bank loan of Central Livestock Marketing Ltd., $17,013.77 is provided

for in that.

Other charges amounted to $4,412.97, and there was a provision for legal and audit fees regarding the investigation, of $5,600.00, and there was a loss on the operations of 1963 of 48.12. So that in the way of debit amounts we had $834,248.67.

Now, deducted from that were some recoveries in the amount of $3,731.31, and also we applied the surplus of the Members' Account Protection Fund at the direction of the Board to this deficiency in the amount of $15,731.86 for a total of $19,463.17 in the way of recoveries.

Now, we made a provision for, as of the end of July, of the loss that was expected on the operation of the Association for the 1964 year, so that it would be provided for in this period that the Association had kind of fallen apart, and it was estimated that it would take about $30,000.00 to cover the operating costs in that period. So that our total loss expected for, related to this period, is $844,785.50, and then we had a small surplus from prior years of $96.31, so that the deficiency as assessed as of the 31st of December with the experience of the seven months that followed the year end, and made, as of July 31st, was the net amount of $844,689.19.

"The estimated loss if $635,446.01 in the accounts of members of the association who have been advanced funds in excess of their estimated equity in the cattle on hand as

appraised, from the best information available, by ourselves, along with the staff of the Association, the management of the Association's bank and a special committee of the Board of Directors.

A brief analysis of the above expected deficiency in members' accounts may be classified as follows:

	No. of Feeders	Estimated Deficiency
Under $5,000	7	$ 14,952.10
$5,000 to $10,000	11	87,929.29
$10,000 to $20,000	3	44,107.05
$20,000 to $50,000	4	119,369.22
Over $50,000	5	369,088.35"

Altogether there is 30 feeders in the deficiency category, and the total expected loss there is $635,446.01.

"In the assessment of this portion of the loss we have not considered recoveries which may be made from other securities which may become available or by the continued feeding of the cattle still involved or cattle which may be subsequently arranged for. If a vigorous collection policy is carried out by the Board of Directors these recoveries may amount to several hundred thousand dollars, but because of the difficulty of determining what amount may be eventually recovered no allowance has been made in attached financial statements. We wish to offer some general comments respecting some of the factors which we believe have contributed to the development of the large deficiency."

THE COURT: Is there anything now, Mr. Williams,

the Association a bank and a special committee of the Board

of [illegible].

A brief analysis of the above expected deficiency in members'

accounts may be classified as follows:

	No. of Feeders	Estimated Deficiency
		$ 14,952.10
	11	87,929.29
	3	44,107.05
	4	119,369.22
	5	369,088.35"

Altogether there is 30 feeders in the deficiency category,

and the total expected loss there is $631,446.01.

"In the assessment of this portion of the loss we have not

considered recoveries which may be made from other securities

which may become available or by the continued feeding of

the cattle still involved or cattle which may be subsequently

arranged for. If a vigorous collection policy is carried

out by the Board of Directors these recoveries may amount to

several hundred thousand dollars, but because of the difficulty

of determining what amount may be eventually recovered no

allowance has been made in attached financial statements.

offer some general comments respecting some of

which we believe have contributed to the develop-

[illegible]

THE COURT: [illegible] there anything now, Mr. Williams,

in this, as it goes on, that wasn't in your report in what has been put in before?

I note that some of it is pretty well word for word, and I am just wondering, I don't like you reading many items over again if you have already told the members in, it was in June, wasn't it?

MR. WEIR: The next page, Your Honor, there are some specific items.

THE COURT: Yes. On that page you speak of two kinds of credit, the Drover and Members, you speak of the routine breaking down, and then you speak of the lack of concern of the members in sending back verifications to you. I think you have told us all about that, did you?

THE WITNESS: I would feel that it is covered, except for the last two paragraphs of page 3.

THE COURT: Fine, alright.

THE WITNESS: "With respect to the--- "

THE COURT: If other members, reading, see anything they want read in, let us know and I will have it read in.

MR. WEIR: That is where I have it specifically marked too, Your Honor.

THE COURT: Fine.

THE WITNESS: "With respect to the $62,972.19 expected loss in the Drover and other accounts, an estimated loss of $24,000.00 has been realized with respect to credit

extended to a trucking business of J. Pereverziff. This account was concealed to quite an extent at the year end by applying cattle settlements due to other persons to it, because they did not actually want their money until the following year. In an account recorded in the name of E. Alsop, a balance of $9,166.20 is very doubtful because to date we have not succeeded in establishing the full nature of the transactions and who is responsible for them. The balance of the provision in the amount of $29,805.99 is with respect to accounts where we believe our security is insufficient.

The accumulated loss on the cattle trading transactions is the end product of a very involved pattern of concealment of a loss that appears to have originated in the fall of 1957 as a result of the termination of a Steinberg feeding agreement. At that time there was supposed to have been approximately $40,000.00 worth of livestock and feed on hand, and this was all charged to the respective feeders involved. We are now advised by the supervisor that about $26,000.00 actually was lost on that contract and should never have been so charged. It appears that trying to cover up this amount, a system of misrepresentation was cleverly instituted which has followed through and in the process has grown with interest and other losses. We have compiled a considerable amount of detail following the growth of this loss, but we have some large gaps where the continuity is

not understood. Approximately $58,000.00 of this loss was in Drover account balances which for the last two years have been covered up over the year end by persons paying in money for what they thought was income tax arrangement for their own purposes but which also served the supervisors purpose of wiping out on the Association records an amount which actually represented losses of the Association. This would be paid back to the persons concerned in the early part of the following year and then the loss would continue for most of the year as a loan in among other amounts. This in turn would be wiped out again by a cheque at the year end.
In the course of the examination---"

MR. WEIR: Excuse me. Your Honor, the next two items are going to be covered in the Special Report, do you wish them to be read in at this time?

THE COURT: Yes, I think those are in the Special Report.
Now, would you just summarize in the rest of your financial report as to the reserves, the memberships, the amount of memberships, the amount of reserves, what they were secured by, the---

THE WITNESS: I lost you there, Your Honor.

THE COURT: Well, your page 5, you have membership bonds and membership reserve bonds.

THE WITNESS: Before we turn to that there is a sentence in this last paragraph that I would like read into

the record.

THE COURT: Oh, alright.

THE WITNESS: "From the foregoing comments you will appreciate that the current investigation has revealed many irregularities and considerable misrepresentation. We do not believe that we have had revealed to us all the irregularities which have occurred. It may reasonably be expected that further information may come to light. Consequently we are not in a position to certify that the attached financial statements are correct. However, we can say that the attached balance sheet as at December 31, 1963 has been prepared to the best of our ability from the information available to us and the explanations which we have received. We have been aided by the staff of the Association and a special committee of the Board of Directors in valuing the assets."

THE COURT: Subsequently, some further things did come to light, did they, Mr. Williams, or not?

THE WITNESS: Of a very small nature.

THE COURT: Small nature, yes. Well, I was wondering why you were wanting that read, except that you say that you can't certify it to be absolutely correct.

THE WITNESS: Yes.

THE COURT: Fine.

THE WITNESS: Now, I missed your question, Your Worship.

THE COURT: I was just suggesting that you might go over the rest of the report in a general way, giving us a general outline of the assets, of how they have been invested, what they represent, that is the membership and the reserves, and the amount of business that was done in a year, and bank loans, and so forth.

THE WITNESS: Well, if you will turn to page 7, we can just review it breifly, and I will comment on the odd item in it.

THE COURT: Fine.

THE WITNESS: There we have the assets side of our balance sheet and you will note that in the various bank accounts there was $11,204.00. There was due on numerous cattle accounts $2,614,593.00, and on other receivables $160,552.00.

Q Would that be Drover, N.A.B. ledger?

A Ledger accounts.

Q Alright.

A Accounts receivable.

Q Yes.

A Two ledgers.

There was, then we have deducted the allowance for the loss that is expected on realization of $698,418.00. We have the purchase deposits of $13,745.00, the account due from Mr. Hatch, which is acknowledged, in the amount of $21,459.00. Other advances of $276.00 and $360.00, and

then due from the Members' Protection Fund $1,718.00. Then in the way of inventories we had $54,700.00 worth of cattle that was referred to in the evidence this morning as being holding pen inventory with Mr. Brandley.

Q Those cattle were not in the holding pens?

A No, but they were part of the holding pens records, but the cattle---

Q Were actually out on the Brandley farm?

A Yes.

Q I see.

A And other livestock, two bulls of $175.00.

Q Who had those?

A Well, they were two bulls in the pens here that were disposed of and brought that amount.

Q Right, right.

A We had inventories on feed $4,418.00, and supplies, $1,226.00. Accrued bond interest of $3,135.00, and prepaid insurance of $386.00. We had left in a trust account for the Members' Protection Fund, $15,731.00, and you will note in the balance sheet that that is a liability set up in that amount.

Q What is that?

A This insurance protection fund was instituted in 1962 by a charge to those members that wanted that protection, there was an undertaking to pay to them in the case of death an amount on their account up to a maximum figure of $20,000.00, if they had full, if the account was that large.

Now, there was one death, and the Board of Directors didn't, made no levy in '64. The fund was terminated and according to the covenant that was extended under the plan of protection it was calculated that $15,731.00 was due to this estate, and the balance of the fund was taken in as revenue and applied against our deficiency.

Q Oh, the $15,731.00, then, was actually paid out to that estate?

A Yes.

Q I see.

A Half of our accumulated fund was paid out, and the other half was taken and applied against the deficiency.

Q Why didn't she get the full 20 thousand? Not that it matters too much, but I am just wondering?

A Well, under the terms of the fund, in the event of one death we weren't to deplete it more than half of its accumulated amount.

Q Oh, I see, alright.

A And, really, with one death it is half of the accumulated amount.

Q I see.

A We held investments in Government and Municipal bonds of $198,263.00, and that is valued at market, and on the basis of market value at the year end date the portion thereof that represented membership bonds was $66,610.00, and the balance was related to the members reserve bond.

We carried five, we carried an investment in the Lethbridge Livestock Exchange Memberships of $900.00, and shares in the Central Livestock Marketing of $7.00, and then you will note that in the way of fixed assets we had a holding pen property that originally cost $66,806.00, and it was valued down to a market value of $25,000.00.

Q Has that been sold since?

A Yes, it's been sold very recently, I believe.

Q How much was---

MR. PROWSE: Approximately two weeks ago for $25,000.00. It was put out for tender, and it was---

THE COURT: Somebody must have read your report.

THE WITNESS: Once in a while you do hit it.

Then in the way of fixed assets that is used in the way of office and building, office building and equipment we have a net depreciated value of $14,089.00, and there was no attempt to value those on the basis of the market, because---

THE COURT: That building and office equipment is still in use?

THE WITNESS: Yes.

THE COURT: Yes.

THE WITNESS: So that altogether our assets were $2,443,524.50.

Now, in the way of liabilities there was the loan to the bank of $2,807,000.00, accrued interest $12,514.00, and accounts payable of $140,771.00.

Then in the way of fixed assets that is used in the way of
office and building, office building and equipment we have
net depreciated value of $14,089.00, and there was an exchange
to value those on the basis of the market, because---
THE COURT: That building and office equipment is
still in use?
Yes.
Yes.
Do you objection our assets were
way of liabilities there was the loan to the bank
00, assumed indebtedness $12,514.00, and accounts

Now, the largest portion of those amounts were funds that had been credited to other accounts. There was the $58,000.00 portion that applied to the, set up the liability to Heninger, and the balance was very largely other settlements which we had received that had been credited to other accounts receivable that we adjusted so as to remove them from the receivable and show them as a liability.

There was credits in the accounts receivables of $36,139.00, amount due to employees of $1,043.00, and we owed Central Livestock Marketing Ltd. $18,960.00, and that is allowing for the amount the Association would be required in order to liquidate the guarantee it had undertaken.

And then we have that liability for this one insurance claim of $15,731.00.

Now, in the way of membership reserves we had a total altogether of $145,887.53. In the way of memberships, we had 164, a subscribed amount of $82,000.00, but four of those memberships were only partically paid so that the paid up membership funds were $80,219.00.

Then we deducted our deficiency, and add in this, reflected this provision to cover the expenses of the loss expected in '64 of $30,000.00, and we began to have the same, we have accounted for the application of the assets on the previous page.

On page 9 is a summary of the operating experience of the Association, and the top portion of it shows that we had

revenue from various sources, such as commission, interest, supplies, transit protection insurance, field equipment rental, and so forth, of $79,003.00, and then there was a loss on the holding pens which is deducted here, of $9,874.00. Our various operating expenses---

THE COURT: I wonder if you would stop there now and tell us actually, for the benefit of the people, where did this Association get its revenue? How did it get its revenue? It borrowed money from the bank and it bought cattle and put the cattle out to feed, and the cattle were brought back and sold, and the bank was paid off. Now, where were the little things that made---

A Our main source of revenue was a commission on cattle that we purchased from members, and then also a commission which we received when we sold cattle again for members, and there was also commission on other cattle that we handled, and---

Q Roughly, what would that commission be? Perhaps we can get that from somebody else. Was it so much a hundred, or--- Never mind, we will get it from somebody else, Mr. Williams. What about the difference in bank, and interest, is there any difference there?

A Well, the interest that has been charged to members has been ½ of 1% more than the interest that we paid the bank.

Q I see. So there would be the profit, and the income of ½ of 1%.

A There was $14,613.00 worth of revenue realized from that

source.

Q In that year?

A In this '63 year.

And then all the interest on the membership and the reserve bonds was brought into revenue in the amount of $8,826.00. Now, the membership for the last several years have been asking that the interest on their reserves be credited to them. However, we have been in the position where we have not had, even by bringing in the revenue at interest we have just been breaking even, or having a bit of a loss, and each year when it's been a matter of the Board considering that it's been a question of, if that interest were set aside for them it would have been necessary to assess the members for the loss, and even though the membership have been asking for it the Board, up till now, have not felt that they could set that interest aside for them, in that it would involve an assessment which they did not feel prepared to make. There was a small loss on the handling of supplies of $241.00, and then the Association has carried its own insurance on cattle in transit by a small charge to the members on cattle as they come and go. We have collected $3,262.00 from that source, and we paid out on death loss $1,641.00.

And then there was some small revenue from the rental of field equipment, $200.00, and other revenues of $490.00.

THE COURT: Now, I imagine the expenses, office expenses, wages, payroll insurance, directors fees, telephone,

so forth and so on, there is just one item here that has been queried from time to time, and that is travel expenses, $22,437.32, which, in relation to salaries of $28,639.74 seems, to someone who doesn't know anything about it, a bit out of line. Can you elaborate?

A Well, actually, in the way of travel expenses it covered the rental cost of a number of vehicles I forget just, the number, I think it was six or seven, I am not sure. It also involved all the out of pocket disbursements of the field men and the supervisor when they were travelling out of the city, and it's all accounted for except for about $2400.00 which was an allowance of expenses to the supervisor, that he was not really required to give an accounting of.

Q In other words, the supervisor got $200.00 a month which he did not have to show vouchers for?

A He gave us a very general statement at the year end, but it was very, it was so general that it, it wasn't a specific accounting, he wasn't really required to give it beyond that.

Q Now, did he, in addition to that, put in expense accounts for things that would ordinarily be covered by that?

A Yes. For his, for quite a number of expenses.

Q In what way? In the city, or out of the city?

A No, when he was in the district, or on a trip.

Q Well, perhaps we can leave that, Mr. Williams. I would like to get in page---

MR. WEIR: Are you referring to the Special Report, Your Honor?

THE COURT: Page 15 of the Special Report, before we adjourn tonight, so that Counsel who are sitting here may know the real, what really happened, and why we are here. And then we can go on from there tomorrow. Page 15 of the Special Report.

THE WITNESS: You mean page 16?

THE COURT: Well, I have it 15.

MR. MOSCOVICH: 15.

THE WITNESS: Oh.

THE COURT: Page 15. The difference in the figures between the bank statement and the ledger account.

A Yes. You recall that this morning I mentioned that we had observed the list of accounts receivable which had been given to the bank, and after we obtained their listing we prepared this little analysis to disclose the differences that existed between the records and the list that was given to the bank.

Now, you will note, firstly, there, that the list agreed in total, right to the cent, but there was an account of N. Brandley of $46,920.64 on the records, but not on the bank list.

There was an account of Mr. A. F. Bullock on the records of $758.34, and it was stated on the bank list as being exactly $20,000.00 more than that.

The account of Ray Bullock was $3,808.20, and it was overstated by $10,000.00.

THE COURT: It was shown at $13,8C0.00---

A $13,808.20.

The account of L. Burke was $43,602.20, and it was understated in the amount of $33,602.20.

The account of Clair Burr, that should be, not Burn, but Burr, on the records it is $18,318.00, and it was not on the bank list.

There was a small credit there for a Co-op Feedlot, of $3,016.00, that was not on the bank list.

The account of F. W. Dyck, of $13,994.00 was on the list as $14,976.77.

Thomas Fukami was in the records at $1,911.38, but recorded on the bank list as $11,911.38.

A credit that was owing to Ivan Harris of $14,370.01 was not shown on the bank list, and likewise a credit for Harris & Smith of $15,004.49.

Mr. J. E. Janz owed the Association $16.28, and he was listed as owing it $10,000.00 more, in the amount of $10,016.28---

MR. MOSCOVICH: Your Honor, may I interrupt Mr. Williams.

I believe if you read the last line out, instead of reading these---

THE COURT: No, read them all, Mr. Moscovich.

MR. MOSCOVICH: We can put it in as an exhibit.

THE COURT: No, that's no good. Nobody is going to read these exhibits. Read them all.

THE WITNESS: The account of Mr. Jones, as it was reflected in the membership ledger, was $55,000.00, and it was shown $20,000.00 less.

Now, there was also an account for him in the N.A. Ledger, that wasn't shown.

Adolf Karl owed the Association $31.58, was showing as owing $20,031.58.

R. Karl's account of $8,796.00 was likewise overstated by $20,000.00 to the bank.

The Owen King account, $9,428.77, was overstated to the bank by $10,000.00.

The account of Melvin Levitt of $77.32 was overstated by $20,000.00.

The account of L. Mehew of $68,181.00 was shown to the bank as $38,000.00, or $30,000.00 less, and there was a second account to L. & W. Mehew of $73,797.39 that was not included on the list.

R. Meldrum had a credit of $1,020.92, and was shown in the bank list at $9,060.62.

J. B. Merrill's account of $45,665.83 was understated by $20,000.00.

J. Motycka, whose account was $1,003.42 was overstated by $10,000.00.

The account of Ray Nelson of $83,926.08 was understated by $50,000.00.

E. M. Peterson account of $48,985.25 was understated by $20,000.00.

The Peterson & Halverson account of $5,218.00 was overstated by $10,000.00.

S. Takahashi, of $400.31 was overstated by $20,000.00.

T. K. Takahashi, account of $10,188.21 was overstated by $10,000.00.

John Thiessen's account of $9,546.54 was overstated by $20,000.00.

Joe Toth's account of $47,442.67 was overstated by $10,000.00.

John Vik's account of $14,345.32 was understated by $10,000.00.

E. E. Wilde's account of $28,041.32 was understated by $10,000.00.

And then the bottom of the list included an amount of $46,920.60, which was shown as a cattle inventory, and the account, the listing didn't add by $18,661.58.

Now, it just happens that that account represented two accounts which were in the ledger that weren't on the bank list.

THE COURT: Well, we have 10 minutes, would you like to go on to page 16, or have you anything, Mr.---

MR. WEIR: I am just wondering, one comment you make, Mr. Williams, in your explanation of, let's see, which

particular account was it--- Your reference to Mr. Hinman, in any event, it's not on this page, and I believe you made some reference to Mr. Hinman in your discussion of this page.

THE WITNESS: Not in the discussion of this page.

MR. WEIR: I misheard you then.

MR. MOSCOVICH: Yes, you named Mr. Hinman, you said Hinman's account was not shown.

THE COURT: No, no, he said a large account of--

MR. MOSCOVICH: I took down his words, Your Honor.

THE COURT: Well, I took it there was one account in here that was in the N.A.B. account, you said.

THE WITNESS: Well, Mr. Jones, there was an account for Mr.---

THE COURT: Yes, Jones.

THE WITNESS: Jones, that was in the N.A.B. ledger, that wasn't reported in this list. This is just the accounts of the members ledger.

MR. WEIR: Okay.

THE COURT: Well, I take it then that the, well, I take it, Mr. Williams, that Mr. Hinman's personal account was correctly reported?

A To the bank, yes.

Q But the Hin. Hat. Som. Ranch account was not reported, at all?

A Well, in that the, there wasn't a very good listing given to the bank of the, on this Drover ledger.

Q Well, was there any listing given? Maybe we will get that from, but my understanding this morning was that this $46,000.00, no, that represented these calves, I guess. What did the $46,000.00 represent, the inventory?

A There was $54,700.00 worth of inventory.

Q Yes.

A Now, that is an inventory of livestock on the holding pens records, but these animals, 395 head, were at the Brandley Ranch, which I understand Mr. Hinman has since acquired.

Q Yes. But what does this $46,920.00 represent on page 15, that's what I was, anything, or is it just a figure?

A Well, it was a figure to balance the list.

Q Oh, I see.

A And it had no business being in there, at all. It just sounded good to relate to this inventory figure. It, by rights, was carried in the general ledger in a different account.

Q Alright.

A And it really had no place in here, in the list given to the bank.

MR. WEIR: Your Honor, I wonder, before going on to page 16, unless you wish to go on there, I am interested in an item which is back in the Auditor's report regarding this cattle trading account, about the reconciliation of this account, when it was established, and so on.

THE COURT: Go ahead.

MR. WEIR: Mr. Williams, in the auditor's statement, which is marked A-1, there is a reference to a loss on the cattle trading transactions of $67,564.27. You have given us some explanation of this, and I am wondering if you could go into a little more detail concerning this cattle trading account, itself, and the reconciliation of this particular account, and so on?

A Well, that's a very difficult area to attempt an explanation of.

In the records of the association we have an account called Cattle trading. Now, all livestock purchased, if purchased through the Lethbridge Central Feeders records, not the holding pens, but the Lethbridge Central Feeders records, is debited to this livestock trading account. Then, when the cattle move to a feeder there is a, it's invoiced out and it goes through a sales record, and the cattle, as they go to a feeder, end up by being credited to this livestock trading account. Now, the purchases go in, the sales go out.

Now, it sounds kind of difficult to think that amounts like these, $47,000.00, can go in and out of that account, but they have, unfortunately.

Now, this account is intended to be what we think of as a kind of a wash out account. It's a general ledger account that serves the function of letting us use two records, and yet, you know, carry from one record to the other, like the purchases in one record, the sales come out in the second

record. Now, these animals, as they go in there, they go in by head, and they go in by dollar value. They come out by head, and they come out by dollar value. Now, when that account operates smoothly it should wash out. The head in and the head out should balance. The dollar value in and the dollar value out should balance.

Now, this account here, at one time we used two, the account for the head going in and the head going out. Now, back here a number of years ago we came along to one year when it wasn't finalized, and---

THE COURT: Would that be in 1957?

A Well, about in there.

Q I have a general entry here which I would like to read to you.

"July the 31st, 1957, debit cattle account $9,313.54. Credit accounts receivable $9,313.54. To adjust latter account to trial balance at year end the task of specifically identifying the items too difficult for time at our disposal. The above adjustment equitable. However, ledger to be maintained from here on so that this difficulty will not be faced again."

I took that out of the journal entry for that year. Would that be the year, or not?

A Yes.

Now--- Now, if you will, I haven't really submitted as an exhibit the financial statement for 1957, but this cattle trading account, along with another group of what we term

wash-out accounts, which were accounts that yardage, where yardage would be charged and credited to yards, charged and credited to feed, charged and credited to freight, trucking, tax, and health, and brands, those are all accounts in the nature of this cattle trading account.

Now, as of the end of the year, if we take all those, the differences, like, none of those accounts really worked out to a nil balance, but if we take all the differences we ended up with a credit of $1,686.00. Now, in the cattle account there is that $9,000.00 difference, but we had credits in the other accounts, so that all summarized left a net amount of $1689.00.

MR. WEIR: Including the cattle trading account?

A Yes.

THE COURT: But you couldn't balance---

A No, we couldn't balance, but---

THE COURT: Well, I wonder if we could just leave it at that for this evening, and return to the discussion at 10 o'clock tomorrow morning.

(HEARING ADJOURNED AT 4:30 P.M.)

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